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**Market Analysis of Finnish Market and Part of  
Russian Market (Moscow and Saint Petersburg)  
Case company: Sans Digital**

Thesis 2014

## **Abstract**

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The objectives of this study were to determine if it is feasible to enter the market of Finland, Moscow and Saint Petersburg and are there any possibilities for future development in those markets. The thesis was conducted for the Taiwanese Information Technology provider Sans Digital, which mainly operates in the IT hardware sector. The study has been carried out due to the company's desire to expand its operations into the European part of the world starting with Russia or Finland.

The structure of the thesis includes itself two main parts: theoretical and empirical. First, in the theoretical part all of the concepts were described and all the tools, which have been used in the analysis were introduced. As for the empirical part, the desk research technique was used, all the information was gathered from already existed data. After that, the collected information was carefully analysed and relevant data has been introduced in the report. All the data has been gathered through the books, articles, previous studies and the Internet.

The results of the carried out analysis show that the markets of Moscow and Saint Petersburg are more feasible to enter, however, there are some circumstances in political and economic environment that need to be taken into consideration. Thus, it is better to wait, analyse all the benefits and threats of entering the markets. Moreover, the results of the study provide key information on the weak aspects the company has to work on.

Keywords: market analysis, b2b, pestle, swot, porter five forces

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# **1 Introduction**

During the past decades since early 90s business and its opportunities have been rapidly growing. The Information Technology industry started to grow rapidly since then without major decline in trends. Trade between countries has been developing and improving from year to year and globalization became a big part of the business world in a way that the borders between the countries do not matter that much anymore for many industries. Nowadays, several companies enter the foreign market every day to eventually grow into an international level company.

Those companies have to pass many stages to enter the foreign market. The first one, which forecasts the future and opportunities for the company is the market analysis. The market analysis illustrates the whole picture about the market and discovers if there is an opportunity for the company to enter the target market.

## **1.1 Objectives of the study**

This study is a market analysis for Sans Digital, the American based company, which is planning to expand into the EU market starting with Finland and the two biggest Russian cities Moscow and Saint Petersburg. The purpose of the study is to determine relevant market characteristics, to produce important information about competitors, to find out required knowledge about future trends and customers' product quality and taste preferences in order to enhance strategic decision-making and to facilitate business development. (Yritys 2012, p. 1.)

Therefore, the presented thesis aims to answer several research questions. The main research question is if there is a possibility to enter the markets. Other additional questions are "Which one of markets is more feasible to enter and what period of time (now or later)?" "Does it worth it to enter the market?" and "Are there any good possibilities for future development?"

## **1.2 Structure of the report**

To give the answer to the research questions the report has been divided into seven chapters, the first one is the introduction part in order to get an overall image of the whole study. The second chapter of the report introduces the reader to the client company Sans Digital, its products and services as well as the technological terms and important aspects of those products. The third chapter is the main theoretical part of the thesis. It presents all the key concepts and methods used to perform the empirical part. The following fourth part describes which research method was chosen and how the study was conducted. The fifth and sixth chapters, which are the actual empirical part of the analysis of Saint Petersburg and Moscow markets (chapter 5) and analysis of the market of Finland (chapter 6). Both chapters 5 and 6 are divided into several subchapters according to different kinds of analyses, which were used. Then, the final chapter of the actual thesis is the summary of the whole work done during the process of analysing the markets.

## **1.3 Limitations**

The market analysis is a part of market research, which aims to measure the market share, market size and growth, identify target customers, analyse the competitive landscape and formulate a marketing strategy. The company can stay competitive only through analysing its markets and investing in research and development. Market analysis, therefore, is an aiding tool for market research, where the outcome and understanding of the market in question can be helpful in developing products and business practices. (Yritys 2012, p. 1.)

Thus, the analysis covers a lot of aspects and of course has lots of limitations. The first limitation for the report was the size of Russian market as Sans Digital would like to expand its operations into the whole market, however, it is impossible and the market had to be limited to two biggest cities of Russia Moscow and Saint Petersburg.

Then, during the analysis it appeared that the data, which already existed at the moment, was sometimes out-dated, for instance for Finnish market the only ex-

isting data to be found was from 2011 and this was already 3 years old. And therefore, if the company does not want to expand its business operations into the market at the moment, the need of another analysis in the future exists.

## **2 The client company**

Sans Digital is privately held American based company with headquarters in City of Industry, California and was based in 2005. On the one hand it is quite young in the computer hardware or information technologies (IT) industry with a number of employees 50-100 and revenues approximately 5 - 10 millions US dollars; but on the other hand the company has about 10 years experience offering complete storage solutions and it already has OEM (original equipment manufacturing) and ODM (original design manufacturing) experience. It is very important to notice that Sans Digital is a divisional company of Ily Enterprises Incorporated, which was founded in 1995, whose main product is software and duplication hardware. (Sans Digital 2014.)

So far, Sans Digital is one of the leading providers of high performance storage subsystems and the company is devoted to providing the highest quality storage devices and whole solutions with great flexibility, performance, aesthetics and value. Sans Digital offers hot-swappable JBOD and RAID storage products for direct attached storage (DAS), network attached storage (NAS), and storage area network (SAN) to customers ranging from SOHO (Small Office, Home Office), SMB (Small, Medium Business) to enterprises worldwide. Thus, these storage units can be used in home offices, small and medium-sized businesses, audio-video editing, data backup, surveillance systems, database storage, imaging, file servers and many other industries. The products provide great solutions for companies and individuals across the world, which need effective and reliable data storage systems. (Sans Digital 2014.)

### **2.1 Products and Services**

Sans Digital offers products and services that are exclusively unique, which help customers improve their productivity. Those are storage products for RAID and bare-bone systems. All of the products are technologically advanced, thus

Sans Digital ensures that the products will meet the customers' needs of the wide range of clients. By incorporating the latest technology, Sans Digital sets the standard in the storage industry. The company understands that “every customer is different and Sans Digital recognizes that one size fits all storage solutions are unlikely to meet everyone's requests. As a result, Sans Digital joined a wide variety of industry leaders to offer storage applications that are specific to various industries. This includes off-the-shelf or fully customized solutions.” (Sans Digital 2014.)

## **2.2 Description for Technological Aspects of Products**

### **2.2.1 Types of Storage**

First of all, it is important to describe what kind of storage exists among the products of Sans Digital. There are three main kinds of storage solutions and those are Direct-Attached Storage, Network-Attached Storage and Storage area network. (EMC Publishing Company 2010, p. 9.)

#### **DAS**

First type is Direct-attached storage (DAS). It refers to a digital storage system directly attached to a server or workstation, without a storage network in between. A typical DAS system is made of a data storage device connected directly to a computer through a host bus adapter. Between those two points there is no network device (like hub, switch, or router), and this is the main characteristic of DAS. (EMC Publishing Company 2010, pp. 99-101.)

The examples of DAS products of Sans Digital are starting with MobileSTOR and MobileRAID series, which are quite compact and convenient for small businesses or even for home uses, and finishing with EliteSTOR and AccuRAID series, which are able to connect at least 24 hard drives together. (Sans Digital 2014.)

#### **NAS**



The second one is NAS. Network-attached storage (NAS) is file-level computer data storage connected to a computer network providing data access to several groups of clients. NAS not only operates as a file server, but also is specialized for this task either by its hardware, software, or configuration of those elements. NAS is often manufactured as a computer appliance – a specialized computer built from the ground up for storing and serving files – rather than simply a general-purpose computer being used for the role. (EMC Publishing Company 2010, pp. 149-151.)

NAS systems are networked appliances, which contain one or more hard drives, often arranged into logical, redundant storage containers or RAID. Network-attached storage removes the responsibility of file serving from other servers on the network. (EMC Publishing Company 2010, pp. 149-151.)

For this type of solution Sans Digital offers 3 series of products, which includes several kinds of products with different capacities, those series are AccuNAS, EliteNAS and MobileNAS (Sans Digital 2014).

### **NAS vs. DAS**

The key difference between direct-attached storage and network-attached storage is that DAS is just an extension to an existing server and is not necessarily networked. NAS is designed as an easy and self-contained solution for sharing files over the network (Sacks 2001, pp. 11-16).

NAS is generally not as customizable in terms of hardware (central processing unit, memory, storage components) or software (extensions, plug-ins, additional protocols) as a general-purpose server supplied with DAS (Sacks 2001, pp. 11-16).

### **SAN**

A storage area network (SAN) is a dedicated network that provides access the united data storage on block level. Primary usage of the SANs is to enhance storage devices (for example disk arrays) accessible to servers so that the devices appear as locally attached devices to the operating system. A SAN typi-

cally has its own network of storage devices that are generally not accessible through the local area network by other devices. SANs have some disadvantages, but basically, they help to increase storage capacity utilization, since multiple servers consolidate their private storage space onto the disk arrays. (EMC Publishing Company 2010, pp. 118-121.)

“Common uses of a SAN include provision of transactionally accessed data that require high-speed block-level access to the hard drives such as email servers, databases, and high usage file servers” (Ranganagoudar 2006). Basically, some of product lines of Sans Digital mentioned above are covering as well SAN solutions, but most of them are represented in EliteRAID and AccuRAID series (Sans Digital 2014).

### **NAS vs. SAN**

Visual differentiation of NAS vs. SAN use is in network architecture. NAS provides both storage and a file system. So it is often contrasted with SAN, which provides only block-based storage and leaves file system concerns on the "client" side. (Sacks 2001, pp. 10-18.)

One way to somehow differentiate a NAS and a SAN is to have a look at both from the user point of view. NAS appears to the client OS (operating system) as a file server, whereas a disk available through a SAN still appears to the client OS as a disk, visible in disk and volume management utilities (along with client's local disks), and available to be formatted with a file system and mounted. (Sacks 2001, pp. 10-18.)

SAN and NAS are not mutually exclusive despite on all of their differences. Moreover, they may be combined as SAN-NAS hybrids, which offer both file-level protocols (NAS) and block-level protocols (SAN) from the same system. (EMC Publishing Company 2010, p. 115.)

### **2.2.2 Drives Architecture**

Secondly, it is essential to explain what is "inside" of storage, meaning drive architecture. There are several types of how discs are organized to store the

data, but mostly nowadays RAID technology is used, except for RAID there are also JBOD and Spanning, which are also going to be described further. (Sans Digital 2010.)

## **RAID**

RAID is a technology developed for storing larger amount of information by combining multiple disk drive components into one logical unit or array for data redundancy and performance improvement. All the data is divided and distributed across the drives in one of several ways, referred to as RAID levels. Those levels are chosen by user, depending on the specific level of redundancy and performance required (Ranganagoudar 2006).

For the first time the term "RAID" was introduced as abbreviation for **R**edundant **A**rray of **I**nexpensive **D**isks by David Patterson, Garth A. Gibson, and Randy Katz at the University of California, Berkeley in 1987. Later, industry RAID manufacturers started to interpret the acronym as standing for **R**edundant **A**rray of **I**ndependent **D**isks as the cheap disks are often cause to failure the whole system as well as the disks are separated and not related to each other (Patterson, Gibson & Katz 1988, pp. 110-114).

Nowadays, RAID is used as an umbrella term for computer data storage schemes. Those schemes can divide and replicate data among multiple physical drives in a way that the array is accessed by the OS (operating system) as one single drive. The different architectures are named by the word RAID followed by a number, for example RAID 0 or RAID 1, as well as some of RAID levels have names like striping (RAID 0), mirroring (RAID 1), etc.; all in all there are 7 levels and two modes SAFE 33 and SAFE 50. Each scheme provides a different balance between the key goals: reliability and availability, performance and capacity. RAID levels greater than RAID 0 provide protection against unrecoverable read errors (errors in one of the sectors), as well as whole disk failure (Ranganagoudar 2006).

## **JBOD**

Except for RAID, the hardware from Sans Digital is also using JBOD and Spanning. JBOD (**J**ust a **B**unch of **D**isks) is not one of the numbered RAID levels. Unlike a concatenated array provided by RAID, the disks of JBOD appear as individual hard disks, instead of one single large disk. Thus, the user accesses to every disk separately. JBOD accurately describes the underlying physical structure that all RAID structures rely upon, but it doesn't provide redundancy or performance improvements. When a hardware RAID controller is used, it normally defaults to JBOD configuration for attached disks. (Sans Digital 2014.)

## **Spanning**

Spanning or concatenated array is also not RAID, although it is an array. It is a group of disks connected together, end-to-end, for the purpose of creating a larger logical disk. Although it is not RAID and it is quite popular nowadays, still it is the result of early attempts to combine multiple disks into a single logical device. There is no redundancy with a concatenated array. Any performance improvement over a single disk is achieved because the file-system uses multiple disks. This type of array is usually slower than a RAID 0 array of the same number of disks. (Sans Digital 2014.)

## **3 Theoretical background**

### **3.1 Market Analysis**

Market analysis studies the attractiveness and the dynamics of a chosen market within a special industry, thus for Sans Digital the analysis of the Finnish and part of Russian market are going to be conducted in the specific computer industry or information technology (IT) industry. In addition, the market analysis is a part of the industry analysis, which makes it the global environmental analysis (PESTLE method is going to be used in this case). Then, with the help of a SWOT analysis, proper business strategies of a company can be defined in the future.

The market analysis is also known as a documented investigation of a market that is used to adjust planning activities of the company, for example, decisions of inventory, purchasing, promotional activities, and many other aspects (Hari 2010, p. 35).

To begin with, according to David Aaker the goal of market analysis is to determine the attractiveness of the market for a company and to understand the possible opportunities the market can provide in the future as well as possible threats. Secondly, all the dimensions of market analysis should be included. In the book *Strategic Market Management* by Aaker and McLoughlin (2010, p. 60), the following dimensions of market analysis have been outlined:

- Actual and potential market size
- Market growth rate
- Market profitability
- Cost structure
- Distribution systems
- Market trends and developments
- Key success factors

### **3.1.1 Actual and Potential Market Size**

A basic starting point for the analysis of a market is the total sales level. If it is reasonable to believe that a successful strategy can be developed to gain a 15% share, it is important to know the total market size (Aaker & McLoughlin 2010, p. 62).

Philip Kotler has defined the market as the set of all actual and potential buyers of a product or service. He noticed as well that the size of the market depends on the number of buyers who might exist for a market offer (Kotler & Armstrong 2010, p. 35). Therefore, the market size can be defined through the market volume and the market potential.

The market volume shows total sales volume of all sales happened in a special market. Thus, the volume is dependent on the quantity of consumers and their main demands. Furthermore, the market volume is either measured in quanti-

ties or qualities. The quantities can be given in technical terms or in numbers of items, but mainly in numbers of items. Qualitative measuring mostly uses the sales turnover as an indicator. That means that the market price and the quantity are taken into account. (Esquerdo 2012, pp.24-25.)

Besides the market volume, there is a factor that is equally important, and some times even slightly more important, - market potential. The potential defines the upper limit of the total demand and takes into consideration not only the existing customers, but as well the potential clients who show some level of interest (Kotler & Armstrong 2010, pp. 88-90). Although the market potential is just an assumption, it provides good values of orientation and can dramatically change the size and prospects for the market (Aaker & McLoughlin 2010, p. 62-64).

All in all, the relation of those two factors - market volume to market potential - provides information about the chances and possibilities for market growth. According to Aaker and McLoughlin (2010, pp. 63-65), the size of the market can be evaluated based on present sales and on potential sales. The following are some information sources for determining market size:

- Government data – the data about market provided by the country or city government.
- Trade associations – the organization created by several businesses, which are operating in the same industry, its main focus is collaboration between members and it takes part in most of the public activities (Crouch & Housden 2003, p. 283).
- Financial data from major players – the data provided by financial vendors, basically on most of financial issues like the stock exchange feeds, according to which it is possible to guess the market current conditions and possibilities to growth (Crouch & Housden 2003, p.283).
- Customer surveys – and of course there is always an option to carry out own survey among the customers and potential clients to gather the data on market current size and potential growth (Aaker & McLoughlin 2010, pp. 27-28).

### 3.1.2 Market Growth Rate

After the size of the market has been estimated, the focus turns to growth rate. The growth rate of the market is necessary to determine as in the long-run perspective a growing market can promise increase in sales and profits as well as losing everything as there are several stages of market growth (Aaker & McLoughlin 2010, pp. 65-67).

The simplest way of forecasting the market growth rate is to use historical data: to compare this data to the current situation under a given set of conditions and try to turn the obtained information into the future trends, very few industries and markets lend themselves to easy forecasting though. However, while this method may provide a first-order estimate, it does not predict important turning points. (Kotler & Armstrong 2010, pp. 148-150.) Furthermore, the strategic interest does not have a projection on the historical timeline, but rather it can be predicted as turning point on the market (Aaker & McLoughlin 2010, pp. 65-67).

There is a better method of estimating the market growth rate and it is to study growth drivers or leading indicators such as demographic information and sales growth in complementary products. Such drivers serve as leading indicators that are more accurate than simple comparison of historical data to the current one. In addition, sometimes those leading indicators of market sales may help in forecasting and predicting turning points. (Aaker & McLoughlin 2010, pp. 65-67.)

Important inflection points in the market growth rate sometimes can be predicted by constructing a *product diffusion curve*. The shape of the curve can be estimated by studying the characteristics of the adoption rate of a similar product in the past (Aaker & McLoughlin 2010, pp. 65-67). The product diffusion curve will be explained later in this chapter.

But in the end, many markets mature and decline, thus, the declining stages of the product life cycle will be reached (Kotler & Armstrong 2010, pp. 300-310). The change from stage to stage during the lifecycle is one particularly important

set of turning points in market sales. According to Aaker and McLoughlin (2010, pp. 65-67), some leading and most sensitive indicators of last and the decline phase include price pressure caused by competition, a decrease in brand loyalty, emergence of substitute products, market saturation, customer disinterest and the lack of growth drivers.

### Product diffusion curve

*Diffusion of innovations* is a theory that is trying to explain how, why, and at what rate new ideas and technology spread through cultures. Everett Rogers uses the theory in his book *Diffusion of Innovations*. In the book it is stated: “diffusion is the process by which an innovation is communicated through certain channels over time among the members of a social system” (Rogers 2003, p 11). The origins of the diffusion of innovations theory are varied and span multiple disciplines.

This process relies heavily on human capital. The innovation must be widely adopted by people in order to justify itself. It is extremely difficult for a totally new idea to be adopted quickly and by the majority. Within the rate of adoption, there is a point at which an innovation reaches critical mass. The categories of adopters are: innovators, early adopters, early majority, late majority, and laggards. Those groups are created according to how quickly the people inside of each group can adopt a new product (Rogers 2003, pp. 12-18). The product diffusion curve can be created as shown on the Figure 1:

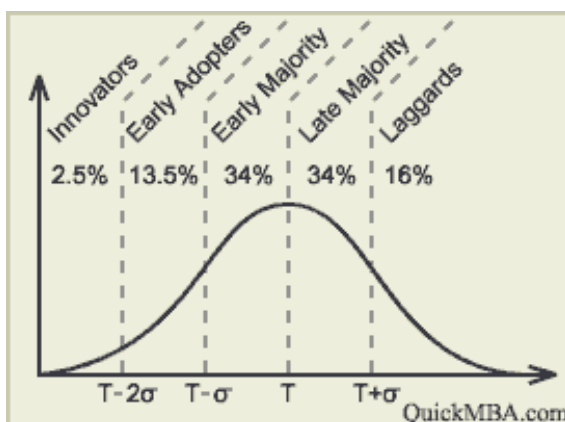


Figure 1: New Product Diffusion Curve (Internet Centre for Management and Business Administration 2010)



In Figure 1 the rate of adoption among all buyers is shown. On the one extreme there are innovators who are ready to buy the product as soon as it becomes available, on the other extreme there are laggards who are last to purchase the products. These consumers buy the product only when the items become popular or familiar. (Rogers 2003, pp. 282-285.)

### **3.1.3 Market Profitability**

In economics many analyses were created to understand why some industries or markets are profitable and others are not. While different firms and organizations in a market will have different levels of profitability, they are all similar to different market conditions, the average profit potential for a market can be used as a guideline for knowing how difficult it is to make money in the market. (Aaker & McLoughlin 2010, pp. 68-69.)

Michael Porter applied the theories about the inequality of profitability among different industries and markets to the business strategy problem of evaluating the investment value of industry or market (Aaker & McLoughlin 2010, pp. 68-69). In other words, he devised a useful framework for evaluating the attractiveness of an industry or market. This framework, known as Porter five forces or “Forces driving industry competition”, identifies five factors that influence the market profitability (Porter 2004, pp. 3-5):

- Buyer power
- Supplier power
- Barriers to entry
- Threat of substitute products
- Rivalry among firms in the industry

This Porter Five Forces Analysis is very crucial in determining market profitability, therefore, there is going to be a separate chapter to explain it thoroughly.

### **3.1.4 Cost Structure**

An understanding of the cost structure of a market is important for identifying future and present key factors for success. To this end, Porter's value chain

model is useful to determine where value is added and to predict where the costs could be cut (Aaker & McLoughlin 2010, p. 70). Porter proposed the value chain as the main tool for identifying ways to create more customer value.

The cost structure is also helpful for formulating strategies to develop a competitive advantage. The competitive advantage has been described by Kotler and Armstrong (2010, pp. 550-553) as an advantage over competitors gained by offering consumers greater value, either through lower prices or by providing more benefits that justify higher prices. Therefore, it is clear that without a lower cost structure it is impossible to offer lower prices or a wider range of services and thus, impossible to gain the competitive advantage. In other words, the company has to use a strategy to develop a cost advantage over competitors.

### **3.1.5 Distribution System**

A distribution channel is the path through which goods and services travel from the vendor to the consumer or payments for those products go from the consumer to the vendor. A distribution channel can be as short as a direct transaction from the vendor to the consumer, or in another case may include several intermediaries between vendor and the final customer or set of interdependent organizations involved in the process of distributing of goods (wholesalers, distributors, agents and retailers). Each intermediary receives the item at one pricing point and moves it to the next higher pricing point until it reaches the final buyer. In marketing mix distribution system goes in place section – all the activities that make the product or service available to the final customers. (Kotler & Armstrong 2010, p. 71.)

The following aspects of the distribution system are useful in a market analysis according to Aaker and McLoughlin (2010, p. 71):

- Existing distribution channels - can be described by how direct they are to the customer. The company has to decide between alternative distribution channels according to their length.

- Trends and emerging channels - new channels can offer the opportunity to develop a competitive advantage. For this aspect the company has to consider what channels are growing in importance, what channels are emerging and so on.
- Channel power structure – who has the power in the channel and how is that likely to shift.

### **3.1.6 Market Trends and Developments**

A discussion of market trends can serve as a useful summary of customer, competitor, and market analyses. So, it is helpful to identify the trends near the end of market analysis (Aaker & McLoughlin 2010, p. 72).

Market trends are the upward or downward movement of a market, during a certain period of time, thus they are long-term patterns of sales growth or decline (Kotler & Armstrong 2010, pp. 128-131). It is extremely hard to guess the market trends if the company is starting with something completely new like launching new innovative product. In this case, it is possible to catch the approximate figures from the number of potential customers or customer segments as well as check on the trends for somehow similar products.

Changes in the market are important because they often are the source of new opportunities and threats. Moreover, they have the potential to dramatically affect the market size. The relevant trends are industry-dependent, but some examples include changes in price sensitivity, demand for variety, and level of emphasis on service and support. Regional trends may also be relevant. However, it is crucial to distinguish between trends and fads that seem quite similar to trends, but those are short-term patterns. By short-term it is meant that fads last long enough to attract investment, but if the company keeps concentrating on the fad, it will lose money in long-term perspective. (Aaker & McLoughlin 2010, pp. 71-72.)

In the book *Strategic Market Management* David Aaker and Damien McLoughlin (2010, pp. 71-72) suggest to use advice by Zandl Group and oppose the real trends to fads by asking three questions:

- *What's driving it?* A trend will have a serious background driver comparing to a fad, for instance: demographics vs. pop culture, values vs. fashion, technology vs. media and so on.
- *How accessible is it in the mainstream?* The trends will seek to get a niche inside the market in the near future, also, it will tend to require a major change in the habits as well as it will require investment in time. None of this aspect will be applied for the fads.
- *Is it broadly based?* Where does it find expression: categories (fads) or industries (trends).

Examples when market trends have an effect on business include changes in economic, social, regulatory, legal, and political conditions and in available technology, price sensitivity, demand for variety, and level of emphasis on service and support (Kotler & Armstrong 2010, pp. 128-131).

### **3.1.7 Key Success Factors**

An important output of market analysis is the identification of key success factors (KSFs) for strategic groups in the market. The key success factors are those elements that are necessary in order for the firm to achieve its marketing objectives; they are assets and competencies that provide the foundation for successful competition and even for competitive advantages. A few examples of such factors include:

- Access to essential unique resources
- Ability to achieve economies of scale (cost advantage)
- Access to distribution channels
- Technological progress

But, generally there are two types of KSFs. Those are strategic necessities and strategic strengths. First of all, the strategic necessities will not provide the competitive advantage as well as they do not guarantee the successful competition. However, without strategic necessities any company will be weaker than its

competitors, in other words, missing strategic necessities will create a substantial weakness. Then, there are strategic strengths, those are superior qualities of the company or the things company does best, it could be logistics, marketing or cost advantages, the important thing is that the strategic strengths create a base for advantage. The set of assets and competencies developed in competitor analysis provides a base set for identification of the key success factors. (Aaker & McLoughlin 2010, p. 73.) Though, it is important to consider that key success factors may change over time, especially as the product progresses through its life cycle.

### 3.2 SWOT

SWOT analysis draws the critical **S**trengths, **W**eaknesses, **O**pportunities, and **T**hreats from the strategic audit. The audit contains a wealth of data of differing importance and reliability. A SWOT analysis can be carried out for a product, place, industry, etc., but in this case the analysis will be done for the Finnish market and for two Russian cities' markets. The analysis identifies the data to show the critical items from the internal and external audit, those factors that are favourable and unfavourable for entering the market at the current or the following period of time. The degree to which the internal environment of the firm matches with the external environment is expressed by the concept of strategic fit, so in a way the analysis shows where the business should focus its attention. Setting the objective should be done after the SWOT analysis has been made. (Kotler & Armstrong 2010, pp. 77-80.)

Therefore, to fulfil its mission, an organization will have to capitalize on its key strengths, overcome or alleviate its major weaknesses, avoid significant threats, and take advantage of promising opportunities. Strengths and weaknesses are inbuilt in the organization's own capabilities, and could be identified using internal analysis. Opportunities and threats often originate outside the organization, (they can be internal also) in the environment. Threats may come in the form of production or quality control problems within the company, and competitive activities that may pose problems or potential problems within the marketing environment. Opportunities can come in the form of increased distribution, new

markets, additional line extensions, changes in consumer behaviour that are conducive to a brand's success, and so on. (Karunakaran 2008, pp 260-261.)

Basically, the measuring can be divided into helpful and harmful as well as external and internal as it is shown in the Figure 2 below:



Figure 2: SWOT (How to Start a Business 2009)

As Kotler and Armstrong stated (2010, pp. 77-80) the internal part of the analysis goes from within the company and those are characteristics related to critical success factors – strengths and weaknesses:

- Strengths: characteristics of the business that give it an advantage over others inside the market.
- Weaknesses: characteristics that place the company at a disadvantage comparing to the existing businesses on the market.

For the external part managers have to identify the main threats and opportunities that the company faces. The purpose of the analysis is to make the managers anticipate important developments that can have an impact on the firm (Kotler & Armstrong 2010, pp. 77-80):

- Opportunities: elements that can be turned into advantages.
- Threats: elements in the environment that could cause trouble for the business.

### 3.3 PESTLE

Aside from the general term environmental analysis, there are a number of generally equivalent terms used for such an analysis, including PEST analysis (also called STEP analysis), which involves an analysis of political (including legal and regulatory), economic, social, and technological forces of the macro environment, and PESTLE analysis, which also involves analysis of the same set of forces as for PEST but makes legal forces distinct from political forces and further includes environmental forces. What is most important in the environmental analysis is not so much the precise categorizations used but the identification of important forces of influence, both current and potential, to the firm's marketing efforts. (Dacko 2007, p 368.)

In this thesis the environmental analysis will be presented in the form of PESTLE, the analysis, which is used by companies as a tool to track the environment they are operating in or are planning to launch a new project, product, service and so on. As it was mentioned previously, PESTLE stands for **P**olitical, **E**conomic, **S**ocial, **T**echnological, **L**egal and **E**nvironmental factors of the market. These aspects shape opportunities and pose threats to any company, thus all the aspects of this technique are crucial for any industry a business might be in. The concept gives the understanding of market, defines what a company should do and accounts for an organization's goals and the strategies stringed to them. (Kotler & Armstrong 2010, pp. 94-115.)

Kotler and Armstrong (2010, pp. 88-115) in the book *Principles of marketing* have defined all the elements, which should be included into the PESTLE anal-

ysis in the chapter *Analyzing the marketing environment*. it is really important to understand all the aspects which are inside the analysis:

- *Political: These factors determine to which extent a government may influence the economy or a certain industry. For instance, well-conceived regulations can encourage competition inside the markets and ensure fair markets for goods and services.*
- *Economic: These factors are determinants of an economy's performance that directly impacts a company and have resonating long-term effects. Most important to remember is that economic environment consists of factors that affect consumer purchasing power and spending patterns.*
- *Social: These factors scrutinize the social environment of the market, and measure determinants like cultural trends, demographics, population analytics, etc.*
- *Technological: These factors refer to innovations in technology that may affect the operations of the industry and the market favourably or unfavourably. Also, technological environment is perhaps the most dramatic force now shaping the destiny of the businesses and humanity in general.*
- *Legal: These factors have both external and internal sides. There are certain laws that affect the business environment in a certain country while there are certain policies that companies maintain for themselves. In addition, the regulations are constantly changing, thus it is important to be updated on legal issues in the countries of operation.*
- *Environmental: These factors include all those that influence or are determined by the surrounding environment or natural environment. For example, the really crucial one is increased pollution.*

### **3.4 Porter Five Forces**

Porter Five Forces analysis is a framework for an industry analysis and business strategy development. According to Porter the state of competition in an industry depends on five basic competitive forces, which are shown in Figure 3. It draws upon industrial organization economics to derive five forces, the collective strength of which determines the competitive intensity and therefore attrac-



tiveness of a market or ultimate profit potential of the industry. Thus, an "unattractive" industry is one in which the combination of these five forces acts to drive down overall profitability. (Porter 2004, pp. 3-29.)



Figure 3: Forces Driving Industry Competition (Mind Tools 2014)

The goal of competitive strategy for a business unit in an industry is to find a position in the industry where the company can defend itself the best against these competitive forces (Kotler & Armstrong 2010, p. 552).

## 4 Research method

It is quite crucial to choose the right research methods among all of the existing ones, as the suitable research method depends on the information available as

well as on the skills of the performer of the analysis. Then, it is important to collect as much data as possible, to differentiate the crucial and the most important one, after that to analyse the selected data and finally, make the right decision whether or not to enter the market. (Kotler & Armstrong 2010, Aaker & McLoughlin 2010.)

Sunny Crouch and Matthew Housden defined (2003, pp. 8-10) that the marketing research provides the mechanism for identifying and anticipating customer requirements and for measuring whenever customers are satisfied by these product offerings. In other words, it is important to match the demand with supply and this can only be done by providing good market research, but first market analysis should be carried out to identify those demands as the analysis is the starting point of the research.

#### **4.1 What does the organization need analysis for?**

There is one good answer that matches the aim of this thesis in the book by *Sunny Crouch and Matthew Housden - Marketing Research for Managers*, it is given from a business-to-business IT supplier and it is following:

"We are now able to develop an enhanced range of system integration products. We need research to discover whether a viable market exists for these possible products, who our potential customers might be and whether they know our name and would buy from us" (Crouch & Housden 2003, p. 16).

This answer gives common questions, which are asked by almost every company, which needs or is thinking about the analysis or research. In this particular case of the thesis, it is known that the markets do exist, but the question that needs to be answered is whether the place to fill exist in those markets and is it feasible to enter them and when. The customer side of the question is going to be covered in this paper during the Porter Five Forces analysis, but just in a basic manner as on this stage the market as a whole will be analysed.

In addition, effective marketing strategies are built on an in-depth understanding of the market environment of the business, and the specific characteristics of the market. It is really important to keep in mind that the understanding of the

clients is in the heart of the market analysis. Therefore, any good marketing strategy would involve marketing research starting with the analysis of the market. (Aaker & Kumar 2013, pp. 10-12.) The most logical way to get started with the analysis is to begin with desk research.

## **4.2 Desk Research Method**

The name desk research refers to that type of research data that can be acquired and worked upon mainly by sitting at a desk. That is to say, it is research data that already exists, involving the summary, collation and/or synthesis of existing research rather than primary research, thus it has been produced for some other purpose and by some other person or organization. (Crouch & Housden 2003, p. 19.)

Desk research is based on the use of secondary data, collecting published information relevant to the company's markets and products. Collection of this information may be important in understanding markets and can prevent the duplication of collecting data that is already available (Callingham 2004, p 207).

Whilst a scan of appropriate desk research sources may not produce the answer to the problem, as there are often not enough data available, it is extremely useful as a familiarization process and in generating ideas that will help to formulate and refine any subsequent collation of primary data as well as on the first stage of market analysis desk research is the best option. The range of electronic services that have been developed, including the Internet, extends the ability of the desk researcher to assess a wide range of material. (Crouch & Housden 2003, p. 19.)

Although the method is labelled as secondary, it is more often undertaken prior to the commencement or during the initial stages of a market research practice. In essence, the activity involves consulting any existing data or other sources of information that might be pertinent to the subject of research. As with many other activities in business and society today, the existence of the Internet has revolutionized the way in which secondary data can be and are collected. Indeed, it might be suggested that the Internet now provides access to untold information and the key, in secondary data searches in the modern era, is to determine

which data are useful and usable and will inform the current project, and which should be discarded, ignored or treated as “good to know”. This is quite a contrast to the lot of a secondary researcher of even a few years ago, when there was a paucity of available data and they would have had to consult a variety of published resources. The volume of available data in the public domain could also be limited on particular subjects. (Hamersveld & de Bont 2008, p 64.)

### **4.3 Data Collection and Analysis**

For this report previously explained desk research was chosen as in the most cases it is enough for the early stage of whole marketing research. In addition, desk research makes a good starting point for any research programme because it is generally quick and cheap to acquire and can be readily assimilated. (Management Study Guide 2013.)

On the first stage of analysis all theoretical information has been gathered mainly through original sources such as books and articles. With the help of the theoretical part of the analysis it was easy to understand what should be included into the empirical part and what should be left out of this study.

Straight after the theoretical research had been finished, the acquiring of empirical data started as according to the study schedule the report was supposed to be done by the end of April 2014. Fortunately, there is a lot of data exists among different sources starting with governmental statistics websites through the previous researches carried out for some other companies. One of the biggest limitations for this study is that some information is still not available for 2012 and 2013, therefore some part of the analysis was conducted based on historical data and market trends. All the data included in the report was systematically discussed, checked and changed according to the relevance and company's needs.

On the final stage, after all the necessary information had been collected, it was possible to draw a conclusion and compare the analysed markets, their environment, the opportunities and threats for Sans Digital and whether or not it is feasible for the company to enter one or both of the markets.

## 5 Analysis of Russian Markets

Russia is the biggest country in the world in terms of area, though it is not that well developed in economical sense. Two biggest cities as well as two biggest business centres of Russian Federation are Moscow, the capital, and Saint Petersburg (Central Intelligence Agency statistics 2013), the analysis of those two cities will be presented in this chapter.

### 5.1 Actual and Potential Market Size

Actual size of IT market of Moscow and Saint Petersburg for 2012 was in slow-down for a while, but far from stagnation stage. However, IT hardware share of the whole market became significantly bigger comparing to software share as it is shown in Chart 1:

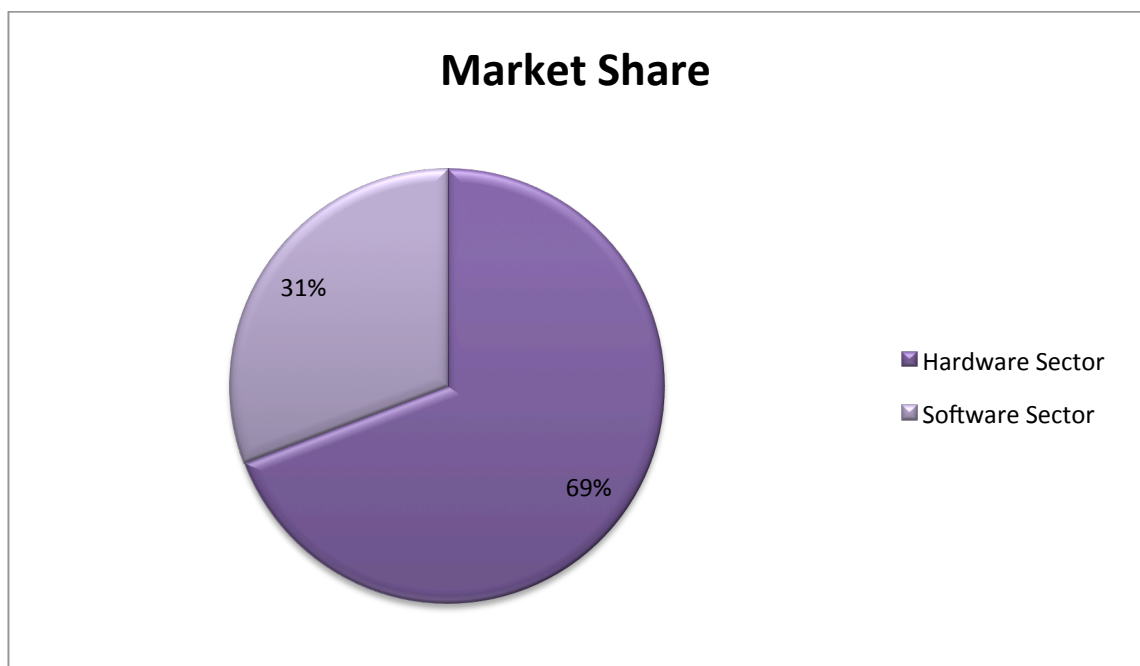


Chart 1: IT market size of Moscow and Saint Petersburg (Encyklopedia Marketinga 2012)

According to the marketing research of Russian company Encyklopedia Marketinga (2012) the percentage difference between hardware and software for b2b companies was 38% more for the IT hardware sector. It means that the companies of Saint Petersburg and Moscow are more likely to purchase new equipment for the company than change the software to the newer one especially,

important to consider that the charts 1 and 2 show us only 4 months out of the year from September to December 2012. However, the chart 2 shows the whole hardware sector which can be divided into 5 different categories, those are following:

- Computers (including PC, laptops, tablets and mini-computers) 67 390 107.54 €
- *Server hardware (Servers and Data centres)* 72 402 057.52 €
- Spare parts and accessories (Computer parts, memory and media, network hardware) 28 332 319.77€
- Peripheral equipment (Uninterruptible power supply, screens and displays, printers, scanners, copiers, plotters) 137 099 793.68€
- Expendables 87 530 314.63€

The product offering by Sans Digital goes to Server hardware category, which makes the sought-for market even smaller as it is shown in the Chart 2:

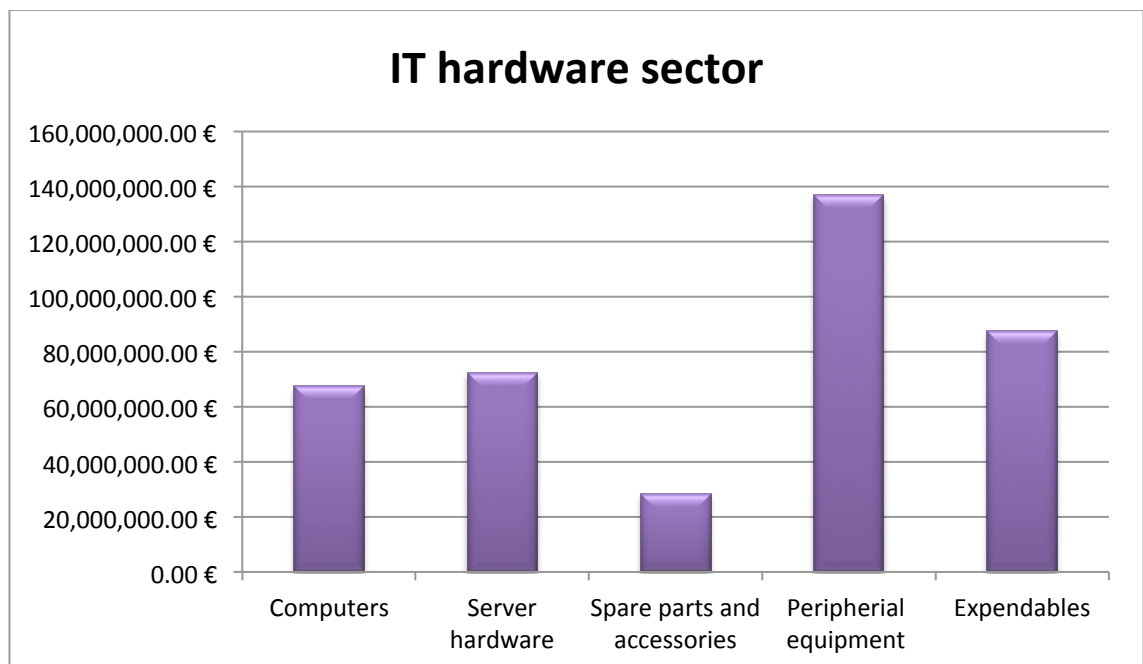


Chart 2: IT hardware sector of Saint Petersburg and Moscow (Encyklopedia Marketinga 2012)

Now, from the chart 2 it is clear that most money was spent on peripheral equipment, probably due to the simple reason – it has a short life cycle, espe-

cially in the big companies it is necessary to change such equipment continuously in order to keep customers and employees satisfaction. Once again, chart represent period of time from September 2012 to December 2012. As it was mentioned earlier, the market sector for Sans Digital will include Server hardware, which is not in the worst conditions according to the chart, in general companies were spending about 219 000 000€ annually (rough estimation of annual spending of companies according to the chart – the companies spent about 72 500 000€ for the period of time September – December 2012) and part of the whole market might become the actual market size for Moscow and Saint Petersburg market for Sans Digital.

Also, from the Chart 2, it is clear that companies are spending some money on spare parts and accessories. This is the potential market for Sans Digital, as company actually offering some of the products from this group. Thus, it is important to develop the right strategy using this potential market, for instance, it is possible to offer complimentary media with storage solutions. All in all, the actual size of market is 219 000 000€ and the potential market size is 90 000 000€ (rough estimation of companies spending on spare parts and accessories as it is shown in the chart 2, the companies spent about 30 000 000€ in 4 months, which makes it about 90 000 000€ annually), which makes it total 309 000 000€. (Encyklopedia Marketinga 2012.)

## 5.2 Market Growth Rate

According to PMR Publication and Russian Federal State Statistics Service information (2012), in general the IT market of Russia has a tendency to grow as it is shown in the Table 1:

	2004	2005	2006	2007	2008	2009	2010	2011
<b>IT market value (€ bn)</b>	6.9	9.0	10.7	14.1	14.8	9.6	12.8	15.8
<b>IT market growth rate (%)</b>	37.7	30.4	18.9	31.8	5.0	-35.1	33.3	23.4

Table 1: Value of the IT market in Russia 2004-2011 (PMR Publication 2012)

As it can be seen from the past statistic the market was growing at a quite fast phase – 30% annually in general, though, during the global economic crisis in 2008-2009 the market has really suffered a severe decline in trends. Despite the crisis, the market has recovered in almost no time as the technological development is crucial for successful development of the countries and in 2011 it has already overpass previously best market value of 2007.

Moreover, since 2011 the IT market has been increasing as well, as it is shown in the Figure 1 in Appendix 1 by PMR Publications (2012). The figure shows that since 2011, the sales of IT products have increased by 13.9%. Moreover, it is mentioned that the majority of the leading vendors, distributors and system integrators reported growth in their sales in 2012. According to PMR Publications (2012), one of the reasons that the IT market has grown almost double is devaluation of the Russian rouble towards US dollar, as the market depends on imported hardware and software, so due to this reason it is important to take into consideration the exchange rate. Converting this growth to euro, the IT market almost reached 17 billion euro by the end of 2012, which meant a growth rate of 16,4%.

Although, it is more important in the case of this report to get the information about IT hardware market development. It is considered that the Russian IT market completed the post-crisis development cycle and that the IT hardware segment is approaching its maturity state. The sales of IT market in general and IT hardware in particular are still growing as it is shown in Figure 2 in Appendix 1. (PMR Publications 2012.)

The driving force for the period of time between 2011 and 2012 was clearly the stability in oil prices, which strengthen the financial shape of oil and gas companies and also increased the revenues of federal budget, which in turn led to the government investing more into IT market. In 2013 the growth rate of the economy has declined, thus the investors keep their savings, which affects the sales of IT solutions (PMR Publications 2012).

Basically, it will be mentioned in the chapter 5.8 PESTLE for Moscow and Saint Petersburg, most of statistics covering Russian market is based on the bigger



cities rather than small towns and even the whole Russian market. Moreover, Moscow and Saint Petersburg are the fastest cities to grow in terms of economy and overall development (Ministry of Regional Development of the Russian Federation 2013). Therefore, it is possible to draw the conclusion that the market growth of markets of St. Petersburg and Moscow will have the rates shown in the Table 2 or even might be a bit higher.

### **5.3 Market Profitability and Porter Five Forces Analysis**

Market profitability can be evaluated using Porter Five Forces analysis, by evaluating five factors driving the competition in the industry. Even though the IT hardware market is growing at the moment it does not always mean that it is profitable for the companies operating in there.

#### **5.3.1 Existing Competitors**

Basically, the existing market of Moscow and Saint Petersburg is divided between big enterprises and SME (small and medium enterprises) and SOHO (Small Office, Home Office). Thus, big firms mostly purchase the hardware from such giant firms as HP (according to HP annual report in 2013 the net sales were 112,298 millions US dollars worldwide), IBM (according to IBM annual report in 2013 the net sales were 99,751 millions US dollars worldwide), Dell (according to Dell annual report in 2013 the net sales were 14.3 billion US dollars worldwide in fourth quarter of 2013), and Fujitsu (according to Fujitsu annual report in 2013 the net sales were 46,614,128 thousands US dollars worldwide). Of course some of the medium size companies are buying from these companies as well, but the price of the goods are mostly too high for SMEs and SOHOs, the average price for a NAS storage solution is about 6 000€ for both Moscow and Saint Petersburg according to current exchange rate, and converting into Russian roubles for local customers the price will be even higher as the exchange rate of rouble dropped just a couple of months ago. (Inter Treid 2014.)

As Sans Digital concentrates on SMEs and SOHOs there is a tougher competition between smaller companies. Small companies in St. Petersburg and Mos-

cow mainly purchase the hardware from such companies as Synology, Qnap and Western Digital.

Western Digital is an American company with headquarters in the USA, California, founded in 1970. The company provides solutions for SMEs mainly, but also SOHOs. The average price for the products is 500€ which is quite good comparing to the bigger firms' prices. Western Digital has an advantage among others as it has an official store and technical support service in Moscow (Western Digital 2014, Inter Treid 2014). However, there are many complaints over the Russian internet that the customer service and technical support of the company does not work perfectly, the products are very loud as well as the most frequent complaint is that the products have plastic cases, which can be broken and get heated up easily. The reviews from companies and other users can be found through Yandex Market ([market.yandex.ru](http://market.yandex.ru)) by typing the company's name and the products' extension code.

Moving on to other competitors, it is important to mention that both Synology and Qnap have headquarters in Taiwan, so it will be difficult to differentiate the offering of Sans Digital over those companies.

Synology was founded in Taiwan, Taipei in 2000, Synology provides its services to all kind of businesses starting with MNEs (Multinational Enterprises) and ending with SOHO. Though, there are not that many offerings for MNE, so the main target customers are SMEs and SOHOs. The prices are about the same as from Western Digital, but as there is no one point store their range is from 450€ to 600€ (Synology 2014, Inter Treid 2014). There are almost no negative reviews for Synology, actually users value the products a lot and rarely complain.

Qnap stands for "Quality Network Appliance Provider". The company was founded in 2004 in Taipei, Taiwan. Thus, Qnap is the youngest competitor among others, but very fast developing. It offers some products for MNEs and SOHOs, but the widest range of products is meant for SMEs. In Moscow and St. Petersburg Qnap products are available through resellers and distributors. Once again, prices vary with different sellers, but the average price is about 450€ which is the cheapest one among the others (Qnap 2014, Inter Treid

2014). In general, the customers are satisfied, however, there are many reviews by Qnap clients who complain about inconvenient interfaces, dysfunction of several features as well as weak customer support. The reviews from companies and other users can be found through Yandex Market ([market.yandex.ru](http://market.yandex.ru)) by typing the company's name and the products' extension code.

Thus, if to trust the customers' reviews, Sans Digital can use the quality of its products as well as good customer service as advantage over Western Digital and Qnap, it is very important not to repeat the mistakes of those companies. It appears that the most dangerous competitor for Sans Digital is Synology as it has a good quality of products, so the clients do not use the customer support that often as well as relatively cheap prices. Though, one important advantage for Sans Digital is that all of the direct competitors only provide NAS storage mainly and there is poor choice of DAS and SAN solutions, this fact should definitely be included in the strategy.

### **5.3.2 Threat of Potential Entrants**

Among of all BRIC countries, the Russian market has the highest barriers to entry according to several different researches. Despite the fact that Russia is fast growing developing market, which many foreign companies target to enter, it is mainly possible for MNEs (HSBG Global Connections 2013).

More than that, according to International Monetary Fund research (Broadman 2001), in many sectors the environment is anticompetitive as the existing dominant firms are often sanctioned or supported by local government.

In addition, there are many Ukrainian and Belorussian IT firms, which can decide to expand their operation into Russian market as it is bigger than their domestic one; it is possible to eliminate the Ukrainian companies at the moment due to unstable political and economic environment as well as unclear relations between Russia and Ukraine. Moreover, according to PMR Publications (2012) reports, now Poland is fast developing IT hardware and software sector in its economy, so the Polish companies can be identified as potential competitors as well. All those 3 country's potential competitors have one advantage over Sans Digital – they share the same cultural backgrounds and due to that reason it

would be easier for them to develop relationships with suppliers from Moscow or Saint Petersburg.

### **5.3.3 Threat of Substitute Products**

There is a very high threat that the cloud technology will replace traditional data storage out of the market. A new study conducted in December 2013 by David Linthicum shows that the more public cloud services are sold, the more traditional hardware and software shrink. According to Investor's Business Daily (2013) the impact from the cloud technology should prevent IT spending from growing already by 2014 and 2015 (Linthicum 2013).

This trend cannot be applied to Russia in general, but it definitely relates to the most developed Russian cities including Moscow and Saint Petersburg. Frankly, a lot of Sans Digital competitors are already offering the cloud technology services. Therefore, it is crucial to consider adding cloud technology to the current product offering if it is possible, otherwise after a couple of years on the market it will absolutely not be profitable to stay.

### **5.3.4 Customer Power**

Russian magazine PCWeek is carrying out the annual research on where the businesses of Russian big cities purchase IT hardware for their operations. The companies mainly operate in Moscow, Saint Petersburg, Yekaterinburg and Novosibirsk. The results of the latest research of 2012 is presented in the chart 3:

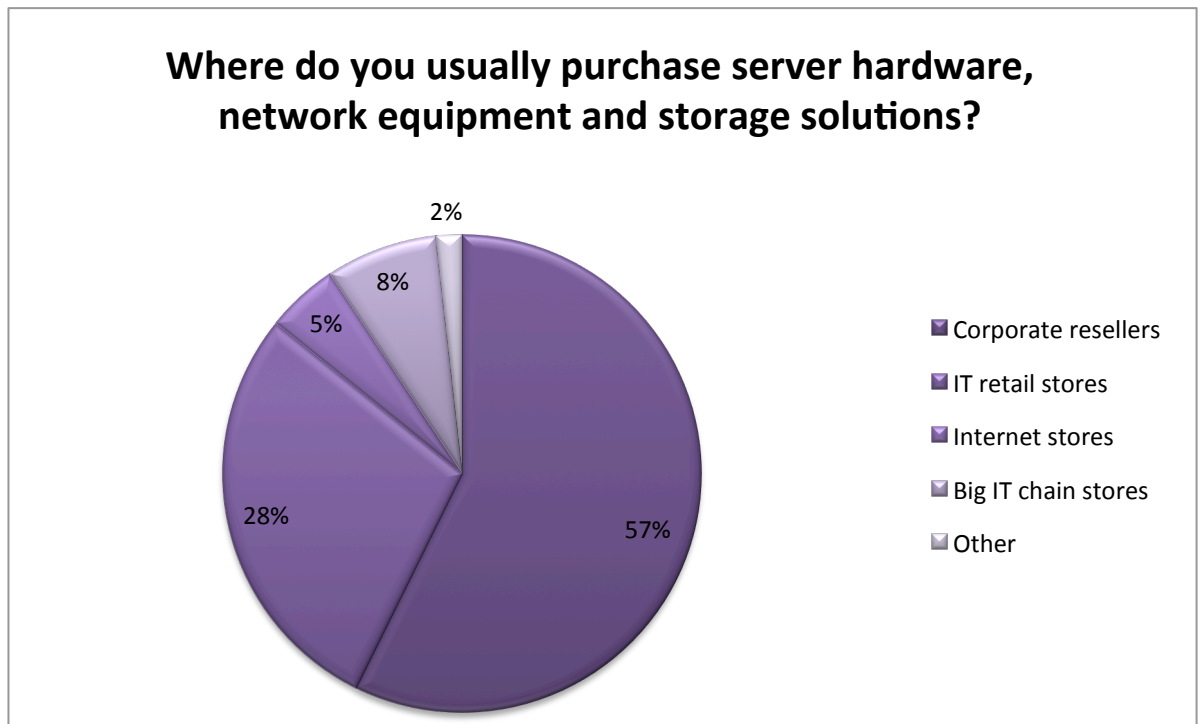


Chart 3: Where do you usually purchase server hardware, network equipment and storage solutions? (PCWeek 2012)

On the chart it is presented that customers mostly prefer to acquire the hardware from corporate resellers, rather than go to the specialised stores or order the goods online. Other sector, which is about 2%, mostly represents the auctions and purchases of the used equipment.

According to the same research of PCWeek, the firms in Moscow and Saint Petersburg prefer foreign suppliers and it is not always possible to purchase products in bulk in the big chain stores where prices are cheaper as the shops are not considering businesses as their primary customers, or do not consider businesses at all. This information was confirmed by the manager of one of the biggest IT store chain in Russia Eldorado (PCWeek 2012).

Therefore, the customers in Moscow and Saint Petersburg do not have a strong bargaining power and have to deal with existing prices and conditions on the market.

### **5.3.5 Supplier Power**

As it was mentioned in the previous chapter, the buyers in Moscow and Saint Petersburg are forced to choose among the offering of suppliers, distributors and wholesalers. It appeared, when researching the customers' reviews that suppliers in Moscow and Saint Petersburg sometimes set really high prices for the hardware as well as it was clear that they do not seem to establish relationships with customers (Inter Treid 2014). Nevertheless, Russian companies still buy the offered products and the brands of IT suppliers that are recognized. Thereby, it is possible to say that for now suppliers have strong bargaining power over the customers and it gives a chance to Sans Digital to turn it into a competitive advantage if decided to enter the market.

### **5.4 Cost Structure**

The main costs for Sans Digital are driven by manufacturing, assembling and distributing the goods. But as in any other business there are additional fixed costs for rent, salaries and wages, taxes and so on. Those costs are quite difficult to cut when entering the new market, but there are some other activities for instance, actual distribution of goods and marketing activities, which can be more or less expensive depending on the market. (Sans Digital 2014.)

As for Russian market, the custom policy has recently seen several developments and one of them is the reduction in the customs duty on technological equipment imports, which is extremely relevant as well as the overall reduction of trade barriers for goods and services due to Russia's WTO accession. (Gray 2013, p. 13.) Therefore, it is possible to cut the distribution cost significantly.

As for marketing activities, it is quite impossible to invest less in this side of business as Sans Digital has to introduce the products to the new market and bring customers awareness and loyalty, thus it requires to invest even more. In fact, Sans Digital tries to bring the awareness by attending different exhibitions and trade shows all over the world such as Computex. Anyways, the proper marketing strategy should be developed and it will definitely cost a lot for the company.

However, it is important to notice in this chapter that bribery rates in Russia are still high and according to Myers (2005) bribery should be included in the costs of doing business.

## **5.5 Distribution Systems**

Basically, Sans Digital delivers its products all over the world, except the USA and Taiwan, by resellers, distributors and retailers. The company has well-developed strategy for distribution and there is no signs that it will be changed in the near future (Sans Digital 2014) The distribution channels of Sans Digital include:

- Direct sales through the Internet store (store.sansdigital-shop.com) and sales team. The Internet store can work out perfectly if to translate the website into Russian, as the companies in Moscow and St. Petersburg prefer to know the products thoroughly.
- Sales through resellers and distributors are commonly used in the distribution channels of Sans Digital, as it is easier for those to find companies, which are looking for storage solutions. It does add the costs to the whole process though.
- Selling with the help of retailers is also used sometimes. As Sans Digital is a B2B company this channel is the least profitable one, due to the reason that not that many companies purchase the hardware through retail stores. In addition, this way of offering the product will unlikely work in Moscow or St. Petersburg, as it can be seen from the analysis in previous chapter, the companies rarely buy hardware from retailers.

Concerning the actual distribution of the products to Russia there are three potential ways:

The first could be marine shipping. This way is the cheapest, however, it requires passing through Japan as the closest way lies through the Sea of Japan. There is another sea route, but it is longer as it lies through North Pacific Ocean; therefore it is more dangerous as well as more expensive.

The other possibility is to ship through China as Sans Digital has strong relationships with its Chinese customers and partners. Per contra, China has complicated exporting/importing policies as well and recently the political situation between Taiwan and China has become tense.

The first two suggestions might be relatively cheap, but those take quite a long time, which leaves Sans Digital with airfreight carriers. Actually, the company uses this way to deliver the goods to all the other countries, except China and the USA, so most probably it will be the way of delivery in case of extension of business activities to Moscow and Saint Petersburg, keeping in mind that both cities have international airports.

## **5.6 Market Trend and Development**

First of all, as it was mentioned in the sub-chapter of the study "Threat of substitute products", the current market trend is the development of cloud technologies, so it is important to consider adding the cloud technologies to the current product offering of Sans Digital.

Then, there is a trend evolving HDD and SSD storage landscapes and as those are a compulsory part of the storage solutions this trend is very relevant. The evolution of mobile devices and data centre infrastructures is transforming the storage landscape. Solid-state drive (SSD) incursions will change where and how hard-disk drives (HDD) are integrated, but both technologies will be used in concert and conjunction with each other for the foreseeable future. (Monroe & Unsworth 2013.) This trend is definitely one of Sans Digital's concerns as if the structure of the SSD or HDD will change; there will be a need to launch new products. On one hand it will give the advantage to some companies, which are adjusting quickly. On the other hand, it will create additional costs for all the companies in IT hardware sector.

## **5.7 Key Success Factors**

Based on the analysis presented in the chapters 5.1 – 5.6, the key factors for successful business strategy in Moscow and St. Petersburg for Sans Digital are the following:



- Growing and emerging market with a lot of potential.
- The knowledge of some of the weak sides and mistakes of existing competitors and therefore, possibility to turn it into a competitive advantage.
- Weak bargaining power of customers, thus if a good customer value programme is developed, it would be easier to fill the market niche.
- Several possible ways of distributing the goods to the customers, depending on the customers' needs.
- Relatively low costs of doing business.

## **5.8 PESTLE**

### **Political Factors**

The political background for Moscow and Saint Petersburg is the same as for the whole Russia as the country is a federal presidential republic as it is stated in the Constitution adopted in 1993. The executive power is shared between the President who is the dominant figure in government and the Prime Minister; and the legislature is represented by the Federal Assembly of Russia which is divided to the upper house (the Federal Council) and the lower house – the State Duma. Moscow and Saint Petersburg are the most politically vulnerable cities in Russia. As any decision made by government is going to be applied first in Moscow and then in Saint Petersburg and only after that in the rest of the country, as well as the population of the cities are most likely to react very fast to any changes in political environment and in the worst cases go on strikes. (The Russian Government 2014.)

Concerning the political trends like elections, the next Presidential elections in Russia are going to be held in 2018 and the State Duma elections will take place in 2016, there is still time to enter the market with current conditions (The Russian Government 2014).

In addition, Russian government promotes foreign investments in several ways; some of the benefits are protected rights, tax benefits and incentives, special regimen for businesses in special economic areas (Fiveysky 2008).

However, nowadays the political environment in Russia is very unstable as the country is very involved in the Ukrainian crisis. The situation is really tense and it is quite difficult to predict the future relations between the rest of the world with Russia. Even though there is no internal conflicts or any political issues nowadays, for the political part of the analysis it is not favourable to enter the market at the moment.

### **Economic Factors**

In order to have a foundation of market in Moscow and Saint Petersburg, it is compulsory to present the general economical situation of the country. After the USSR collapse in 1991, the Russian economy was experiencing turmoil as everything has happened too fast and there was no time for mature adjustments, therefore during 1991-1998 for 7 years in a row the economy was at declining stage with the rate of declining GDP in average 6,8%. Though, after the recovering stage, the country's economy has been growing at the rate of 7% during the years 1998-2008, but after the 2008-2009 the global economic crisis, the growing has slowed down and nowadays the estimated economy growth is only 2,5% until 2030. (Central Intelligence Agency 2013.)

As for the current situation, the estimated Gross Domestic Product (GDP) reached 2.553 trillion US dollars in 2013 making Russia number 7 comparing to the rest of the world. However, the GDP per capita for the same year was only 18100 US dollars and comparing to the others countries on the globe this is not much, so in the rank Russia is taking only 77th place. The GDP composition by sector of origin was 37.5% for industry sector in 2013, but the industry sector includes a really big range of industries, the IT hardware industry is one of those though. Moving on to Imports and Exports, Russia is clearly exporting more goods than importing. In the year 2013 the export amount reached 515 billion US dollars and import amount was 341 billion US dollars. Both numbers are quite big, but it is clear from the statistics that Russia exports mostly natural resources and imports goods such as machinery, vehicles, plastic, semi-finished metal products, etc. China is Russia's number one partner in import trade and number two partners in export trade. This partnership is very helpful for the analysis as Sans Digital has a manufacturing branch and sub-headquarters in

Taiwan as well as the company has strong relationships with China. (Central Intelligence Agency 2013.)

#### – Economic Factors for Moscow

After all, Moscow and Saint Petersburg are administratively classed among all Russia's federal administrative regions and mostly the money flows are going into Moscow and Saint Petersburg and the most of the country's capital is located inside of those two cities, therefore, the commonly known statistics is mostly true only for the big cities like Moscow, Saint Petersburg, Novosibirsk, Yekaterinburg, and Rostov-on-Don. (Ministry of Regional Development of the Russian Federation 2013.) Basically, it is possible to recognise the flows of capital by checking the growing cities in terms of economy and territory. The city of Moscow generates more than a fifth of Russia's Gross Domestic Product, the economic growth of the city has outstripped the average growth of Russian regions throughout the past decade (Moscow International Portal 2014).

Moscow has the lowest unemployment rate in the country, which is about 1% and it has the 4<sup>th</sup> highest wage level which is above 1000€ per month and comparing to the national average wage 560€ it is almost double. Moreover, Moscow is the national financial and administrative centre as the most of Russian biggest companies have their headquarters in the capital. The city accounts for about 17% of retail sales nationally and 13% of all construction activity. As it was mentioned before, about 1/10 part of the whole country fixed capital investment represented by muscovite fixed capital investments as well as the city is Russia's financial hub. During the global financial crisis 2008-2009 Moscow was seen as offering the best investment potential in all of Russia as well as it was designated as Russia's 6th least-risky region for investors. (Lainela 2010.)

*On the global scale Moscow has one of the world's fastest-growing urban economies. For many foreign companies, Moscow is their starting point for entering the Russian market. Businesses and organizations based in the Russian capital are involved in export-import operations with more than 200 countries worldwide. One of Moscow's top trading partners is China as for the whole country in general. More than 6,500 foreign companies have their Russian branch offices*

*in Moscow. In the first nine months of 2013, foreign trade turnover between organizations registered in Moscow and their foreign partners stood at \$245.2 billion, an increase of 4.8% over the same period of 2012. Moscow's business community supports both domestic and foreign companies, and takes part in national programs and investment projects of the city government, so it helps to create favourable conditions for business activity in the capital of the Russian Federation. (Moscow International Portal 2014.)*

#### – Economic Factors for Saint Petersburg

Saint Petersburg is second only to Moscow among Russian cities in terms of industrial output. The city is a major trade gateway, financial and industrial centre of the country. As the city previously was the capital of Russia (until year 1918), there are many factories and building trades. Actually, St. Petersburg attracted more industry than Moscow after the collapse of Soviet Union. Industrial output declined throughout the 90s, but bounced back and significantly exceeded its former levels by the beginning of the 21st century, by which time the city's economy was growing faster than Russia's as a whole in general by 36%. (Encyclopaedia Britannica 2013.)

In 2006 St. Petersburg was awarded with the 1st place among all the Russian cities for minimal investment risk, nowadays the city is economically and politically stable. It is a very important trade gateway and an industrial and financial centre of Russia. The economy of the Northwest Federal District, St. Petersburg belongs to the district as well as it is the main centre of the district, it is also considered the 5th largest in the country. The largest contribution to the city's Gross Regional Product (GRP) growth is contributed from construction, retail, science, telecommunication and service sectors, also the city specialisations include electronics, software and computers; in other words IT industry, which is very crucial for this report. (St. Petersburg Essential Guide 2013, Fiveysky 2008.)

Though, due to the unstable political situation, the value of Russian currency rouble was decreasing at a very fast phase, the currency lost about 15% value against US dollar since 2013 and against euro it hit the lowest point for all-time

with 1€ equals to about 50 roubles (The Central Bank of Russian Federation 2013). This is relatively good news for the companies who export the goods from Russia and for companies who have manufacturing plants inside the country, if the prices are in roubles then it becomes cheaper. However, in general it is bad news for all the businesses doing business in Russia, especially for new entrants, as the environment is uncertain.

More than that, also due to political instability, there might be and most probably are going to be diplomacy and economic sanctions applied by American and European countries (Kerry 2014).

To sum up, Moscow and Saint Petersburg have favourable economic environments in general and there are still developing markets, which give many possibilities for development. But concerning the obscurity of future development of Russian economy in general, it is better to wait for stable conditions and see if it is worth entering the market.

### **Social Factors**

The major urban areas by population are once again Moscow with 11,794.282 million people and Saint Petersburg with 4,879.566 million citizens, in total it makes 16,673.848 million people and about 12% out of the total population of the country. The median age of the total population is 38.9 years (2014), which is quite a young population comparing to the rest of the world as well as taking into consideration the trend of the developed countries - the aging population. (Central Intelligence Agency 2013.)

One of the biggest threats for social factor for Sans Digital is that the Russian way of doing business differs significantly from the Chinese way. Russian culture is very straight forward and especially in Moscow and Saint Petersburg people value their time a lot, they prefer to talk only about business, then Chinese and Taiwanese people are eager to develop personal relations first and only when move to business. Therefore, it is important to study culture first as well as it is preferably to have a Russian representative to seal the deal for those cities.

In Moscow there are 1696 high schools, as well as 91 colleges. Besides these, there are 222 institutions of higher education, including 60 state universities. In addition, there are 796 high schools and 124 higher education institutions in Saint Petersburg. According to statistics, one of the top-5 degrees chosen among all the universities and institutions of higher education in Moscow and Saint Petersburg is IT specialist (MoscowJob 2014). The statistic is important to consider, even though Sans Digital is a business-to-business company, still it shows that the population of the cities is quite educated in general and in the specific information technology sector, which allows the potential customers look professional and potentially beneficial partners.

### **Technological Factors**

Russia used to invest hard into the technology sector, but after the World War II period the country decided to invest mostly into the military sector which lead to the weakening of two really important environments – economical, and especially nowadays technological development. Therefore, the information and communication technology sector nowadays is very weak and most of the products are manufactured elsewhere and then imported to the country. For the beginning of XXI century the hi-tech market share of Russian market was 0.1-0.5%. However, since 2000s ICT market share started to grow at the very high rate, the data available by PRM Publications referred 2012 shows that before global economic crisis in 2008 the growth rate was about 25% in average. (PRM Publications 2012.)

As for storage solutions, the main product of Sans Digital, there are no manufacturers in Russia at all, all the products are imported from other countries and so far there is no information about future development of Russian hardware systems. Thus, the weak development of technological factors in both Moscow and Saint Petersburg gives the great opportunity to enter the market and be one of the first companies to offer the product not only for Sans Digital, but also for its competitors. The timing is really important if entering the market too late the competitors might win the market share by then.

### **Legal Factors**

To begin with, the Russian legal system operates under the provision of civil law. It was developed at a very fast phase during 90s, leaving many gaps and ambiguities in current legislation that may hamper decisions making on the part of the business. The most important code of laws is Russian Constitution, which states that all general principles of international law and international treaties are part of the Russian legal system. Though, there is a huge variety of different legal codes, except the Constitution, there are Civil Code, Criminal Code, Labour Code and Tax code, all of those are important to take into consideration. The laws are applied all over the country without any exceptions, comparing to the US system where almost every state has some exceptions and differences in legislation, this is more convenient and especially for foreign companies dealing with Russian legislation system. (Hammond & Marquaire 2012, p. 6.)

Since 2012, Russia is a member of WTO (World Trade Organization) and this is generally seen as creating more transparency and accountability for the Russian Government on trade issues and it is seen as the membership should act as a safeguard against an unexpected return to protectionist policies. Moreover, WTO accession sends a positive signal to foreign investors, and the lowering of import tariffs on a range of European exports will be welcomed by EU producers. The notable changes will be a material drop in imported-good tariffs, simplified procedures for exporting goods produced in Russia, and change to the quotas for foreign participation in the insurance sector. (Hammond & Marquaire 2012, pp. 6-7.) In addition, Russia is a signatory of the Vienna Convention on International Contracts, as well as the incoterms are applied when shipping the goods.

Russia is a dynamic, developing growth market, with a constantly changing legal environment. Changes both in Russian legislation and in the attitude and position of Russian courts are becoming evident nowadays. Significant amendments to the Russian Civil Code are currently being considered by the Russian parliament (the State Duma). Those aim to introduce new legal concepts, which will be familiar to lawyers from other jurisdictions, such as: options, liquidated damages/indemnities, representations “good faith” negotiation and framework and many more. The changes are introduced or going to be introduced due to

the simple reason: foreign company would choose to use Russian laws to maintain the business, now all kind of foreign investments, but especially Joint Ventures are governed by an English law shareholder agreement. (Crook, Goldberg, Yerdley & Dontsov 2012, pp. 1-3.)

Concerns about the intellectual property are always arising when doing business in foreign countries. Russia is a member of the WIPO (World Intellectual Property Organization) since 1967 as well as signatory to the Paris Convention for the Protection of Intellectual Property. Anyhow, the piracy rate in Russia is still quite high now, so in order to be fully protected it is recommended to register with the register of trademarks in Russian Patent & Trademark Office. (Alpha International Trade 2014.)

All in all, the legal environment of Russia is still immature, unstable and needs a lot of work to be acceptable in the developed country. It can be understood only with the assistance of a local representative.

### **Environmental Factors**

The environmental issues are one of the most important nowadays as the supplies of natural recourses like minerals or even clear water is in shortage. Unfortunately, for Russia it became a concern only recently, which makes a lot of Russian territories highly polluted, especially Moscow and Saint Petersburg. In fact, St. Petersburg was one of the most polluted cities in Russia already in the year 2006. In the chapter about technological factors it is stated that Russia did not invest much into technology and this is one of the reasons why the environment is in danger now, while European countries as well as American ones were investing into technology to find a solution for a healthier state of environment, Russia was recovering in economical sense. The good news is that now the country came to realise that measures have to be taken and it is developing new patterns of resources using new strategies of environmental management quality. (Kopeikina 2008.)

One of the most important problems in Moscow and Saint Petersburg is water pollution. According to the research done by WWF, more than 50% of all water in Russia is now polluted. Therefore, in the big cities it is not recommended and



even dangerous to drink the tap water, it is only possible to drink it when it is filtered and then boiled. The scariest fact is that both Moscow and St. Petersburg are located upon the big rivers and it often appears that there are several threats to be deceased by the waters of Moskva River and Neva River. The main reason is that industrial and chemical waste is dumped straight in the rivers or in the surrounding area. (Henry & Douhovnikoff 2008, p. 444.)

Secondly, there is air pollution. As there are high concentration of factories and manufacturing plants in both cities there were high emissions of SO<sub>2</sub> and heavy metals. However, recently a combination of reduced industrial production has been introduced and the number of harmful gases is declining. But, another problem with air pollutions appeared, as the life quality in Moscow and St. Petersburg is above average rate in Russia, more and more people are owning cars, according to the latest statistics, most of the families in the Russian business centres have 2 or 3 cars. Currently, vehicle emissions exceeded industry emissions. (Henry & Douhovnikoff 2008, pp. 446-447.)

Last, but not least from the environmental point of view, dangers concerning two biggest Russian cities is the inefficient energy usage. As a lot of the energy sector equipment was produced during USSR period of the time it is extremely inefficient and just the upgrading of those technologies could cut at least ¼ of the energy consumption. The good thing is, Moscow and St. Petersburg are big enough to perform changes. In 2009 the new Federal Law was adopted it is called the law "On Energy Conservation and Increasing Energy Efficiency". The law set the goal to reduce the energy consumption by at least 40% per unit of GDP compared with 2007 levels by the year 2020. (Lychuk, Evans, Halverson & Roshchanka 2012, p.1.) Yet, there are at least 3 good cases in Saint Petersburg, and it is possible to say that the energy efficiency law is working. It is not possible to say though if the desired rate of reduction will be reached by 2020.

To conclude, surely there are many problems on the subject of the environment in Moscow and Saint Petersburg. Basically, many years those problems were neglected and ignored by government, but nowadays it shows the positive trends and hopefully will improve significantly in the near future.

## 5.9 SWOT

With the help of SWOT analysis it is possible to consider the "good" factors, Sans Digital should concentrate on and the "bad" aspects, which should be turned into advantages or at least be eliminated before entering the market. All those aspects are represented in the Table 2 below:

	Helpful	Harmful
Internal	<b>Strength:</b> <ul style="list-style-type: none"> <li>• Strong relations with Chinese customers → China can play the role of a link</li> <li>• Long time on the market → experienced company</li> <li>• Low prices</li> <li>• Good quality of the products</li> <li>• Strong customer service</li> </ul>	<b>Weaknesses:</b> <ul style="list-style-type: none"> <li>• Lack of experience in working on such market as Russia</li> <li>• No connections in Moscow or St. Petersburg</li> <li>• Low brand awareness</li> <li>• Lack of marketing activities</li> <li>• Need of Russian speaking employees</li> </ul>
External	<b>Opportunities:</b> <ul style="list-style-type: none"> <li>• Developing market</li> <li>• Growing technological potential</li> <li>• Favourable economical environment</li> <li>• In case of expansion, the market with skilled workers</li> <li>• Low costs</li> </ul>	<b>Threats:</b> <ul style="list-style-type: none"> <li>• Instable and unpredictable political and economical situation</li> <li>• Complicated legal system</li> <li>• Hidden competition</li> <li>• Cultural gap</li> <li>• Weak environmental conditions</li> </ul>

Table 2: SWOT Analysis of Moscow and St. Petersburg for Sans Digital

Basically, the external factors can be explained in the PESTLE chapter as the external environmental factors are described thoroughly there. For the internal factors, the company should develop the strategy promoting its strengths such as low prices, good quality of products, strong customers service and strong relationships with Chinese customers. The role of China actually can be significant when to expand into Russian market as it was mentioned previously in the report China is one of the biggest Russian partners. As for the weaknesses, it is important to hire skilful staff as well as to develop thought-out marketing strategy to increase brand awareness and to arouse interest from the potential customers.

## **6 Analysis of Finnish Market**

Finland is a Scandinavian country located on the boarder with Russia. The country is developing very fast. Since it got complete independence in 1917, Finland has transformed from a farmer economy to a diversified modern industrial economy. Moreover, Finland is a member of the European Union, which gives many benefits to the country's economy and overall situation. (Central Intelligence Agency 2014.)

### **6.1 Actual and Potential Market Size**

According to several authorities including Statistics Finland the IT market of Finland is growing not at high rates, but constantly. Finland is mostly investing into software sector of IT market as it is shown on the Chart 4:

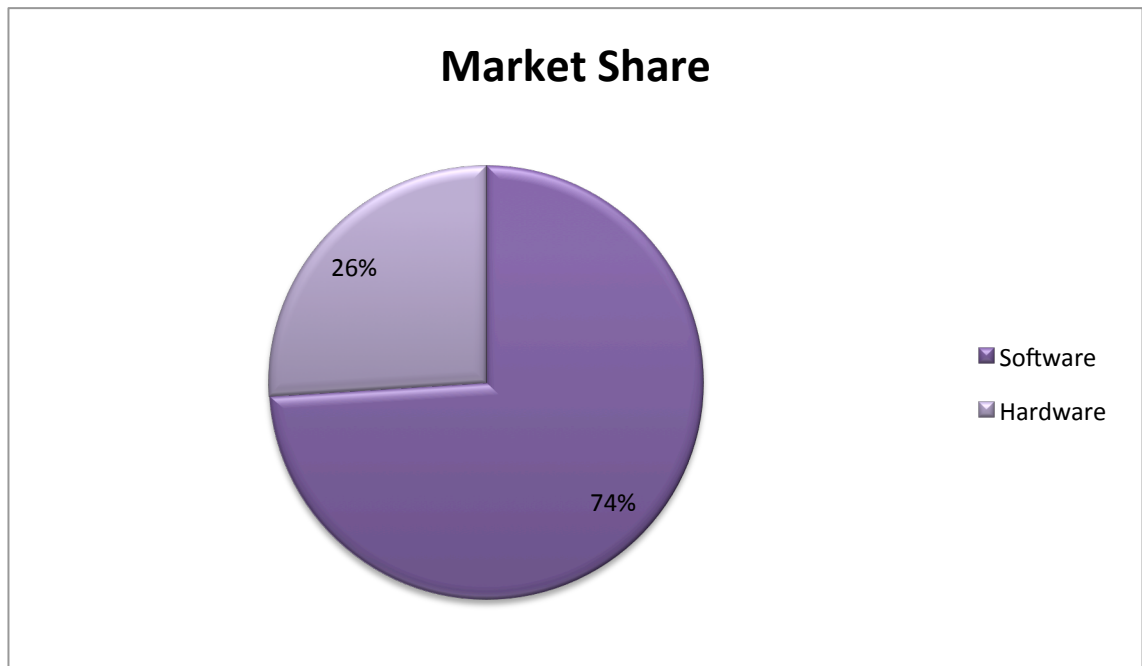


Chart 4: IT market size of Finland in 2011 (Teknologiateollisuus Ry 2011)

According to the report ICT – Tavoitteena toimivampi maailma & Tieto- ja viestintäteknologia Suomessa 2011) in 2011 the IT hardware sector was only 26% with 1472 millions euro, which is very good if counting in money, but it leaves the hardware sector very competitive and small (Teknologiateollisuus Ry 2011).

Although, the sought-for market for Sans Digital will take the share of hardware market, there is still the need to divide the whole hardware market into product categories as it is represented in the Chart 5:

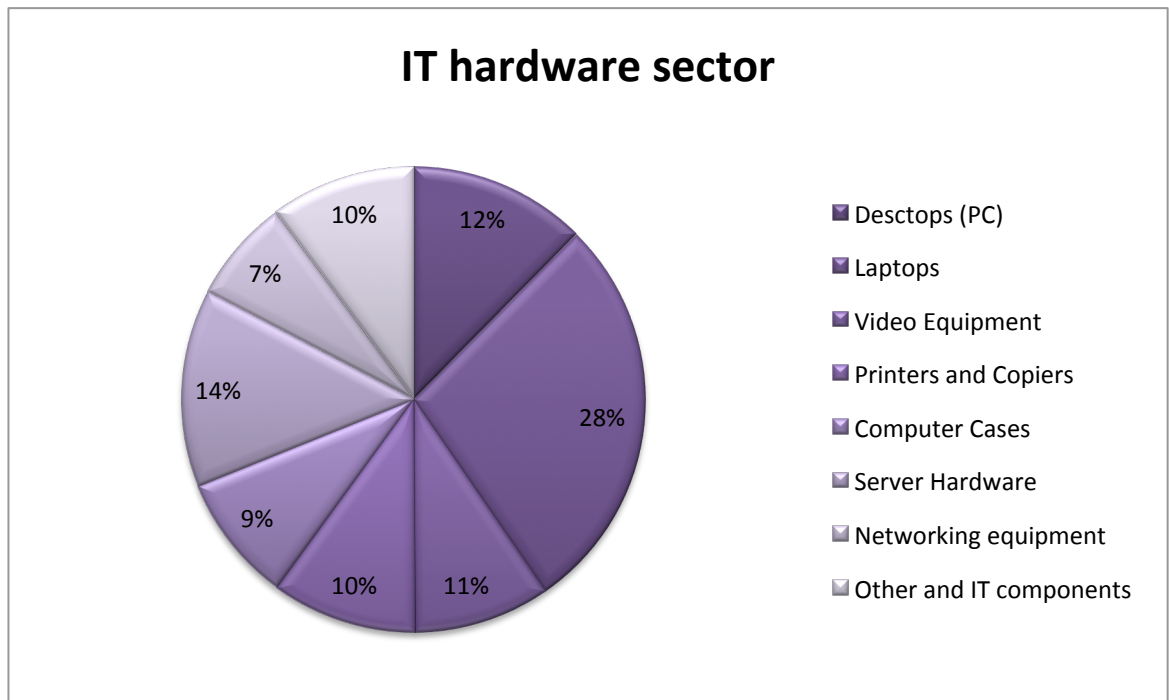


Chart 5: IT hardware sector of Finland (Teknologiateollisuus Ry 2011)

In general, the statistical information for this chapter is presented for the whole IT market including businesses and ordinary people, therefore some of hardware equipment might have a bigger share among business customers and server equipment and storage solutions.

Anyway, as it is shown in the Chart 5, the biggest share of the IT hardware for 2011 was 28% for laptops and on the second place there is server equipment with 13,8% of the sector. Thus, for Sans Digital the sought-for market share will be 13,8% out of 1472 million euro, which makes it 203.136 millions euro annually for the whole server hardware sector. In addition, there is a potential market again in IT components sector, it is possible to get a market share in this sector by providing special offering for instance, HDDs and SSDs or extra cases for storage and so on.

## 6.2 Market Growth Rate

According to Teknologiateollisuus Ry (2011) during 2011-2012 the tendency of the growing IT market will keep at the rate of 2.6% annually. As for server equipment the information is presented in the Table 3:

	2009	2010	2011
<b>Server equipment sector value (€ mln)</b>	190	197	206
<b>Server equipment sector growth rate (%)</b>	-23.4	3.7	4.6

Table 3: Value of the Server equipment sector of IT market in Finland (€ mln)  
(Teknologiateollisuus Ry 2011)

From the Table 3 it is possible to tell that after the global financial crisis 2008-2009, the server equipment sector has had a tendency to grow as well as the IT market in general, not at the same rate as market of Moscow and Saint Petersburg though.

More than that, according to the research of Market-Visio Oy (2012) the value of IT market of Finland will continue to grow in 2013, which is very positive news for any company, which want to expand the business activities to Finland.

### **6.3 Market Profitability and Porter Five Forces Analysis**

Finnish IT hardware market is quite developed at the moment and seems profitable for local companies and for those businesses, which are already on the market. Nevertheless, it is impossible to assume if the market is feasible to enter for a new entrant. The Porter Five Forces analysis is the best tool so far to figure out if the market is profitable and for the Finnish market it is presented in this chapter.

#### **6.3.1 Existing Competitors**

The Finnish market is very competitive and open. However, after the research has been carried out, it appeared that there are mainly big companies on the market. Moreover, the Finnish businesses prefer more expensive but reliable hardware rather than purchasing it from unknown or inglorious SMEs. Many companies are purchasing their equipment from IBM, HP, Fujitsu and Oracle. The first three are too big to compete for Sans Digital and their revenues are mentioned in the chapter "Existing competitors" in the analysis of St. Petersburg

and Moscow markets. Oracle is also an American based multinational corporation, even though it is not as popular as the first 3 of above mentioned companies, its revenues equal to 39,335.43 millions US dollars worldwide (according to Oracle annual financial report 2012-2013).

However, there are several companies, which provide their technologies for smaller Finnish businesses and those are going to be primary competitors for Sans Digital.

Chieftec Industrial Co., Ltd. is a Taiwanese company founded in 1990, it has manufacturing branches in Taiwan and China, therefore the company provides a choice to its customers to purchase either Taiwanese or Chinese products. The company covers almost the whole European market by providing different kind of solutions to the consumers and small businesses, though the consumers are the main target group. Moreover, due to EU market coverage Chieftec has branch office in Germany. The prices of the products start with about 150€ through 400€, which is quite cheap, but the maximum number of drive bays is 8, therefore the solutions are not always suitable for bigger businesses. (Chieftec 2014.)

Buffalo Inc. – is one of the subsidiaries of Melco Holdings Inc. as well as the company's best-known brand. Both, Melco and Buffalo have headquarters in Japan, but also, Buffalo has offices in the UK, France, The Netherlands, Germany, USA and Taiwan. Buffalo was established in 1975 and then incorporated in 1978. The target customers of the company are SMEs almost all around the globe, including Finland. In general, the prices are not exceeding the 1000€ limit, but there are some storage solutions, which are enterprise-class and therefore more expensive. (Buffalo Technology 2014, Melco Holdings 2014.)

Asustor Inc. was founded in 2014 in Taiwan and also has its headquarters in Taipei, thus the company is quite new on the market, but it covers a lot of countries on different continents, except South America. It also provides the solutions for different range of businesses including the MNEs, but the main customers are SMBs and SOHOs. The products are quite expensive though, the average price is about 600€ and the cheapest storage device costs about 250€

compared to Buffalo and Chieftec where the cheapest products will cost about 150€.

To sum up, there are some other less popular companies providing similar solutions for businesses, thus it is possible to state that the competition in Finland is tough and if Sans Digital will decide to expand its business operations into Finnish market there will be a need to invest a lot into differentiation. Furthermore, it will be quite difficult to gain a market share as in the end, the businesses prefer global leaders in the industry.

### **6.3.2 Threat of Potential Entrants**

There is a very high threat for potential entrants from Europe in Finland as the country is a member of the European Union. The EU sets lower boundaries for member countries and it means that any European company, which provides similar product offerings, can be seen as a potential competitor for Sans Digital.

In addition, as it was mentioned earlier the Polish IT hardware market is also developing very fast, Poland is a member of EU, therefore Polish companies are the most dangerous potential competitors for Sans Digital in Finland (PMR Publications 2012).

On one hand, the European companies have government support as well as better distribution channels. But on the other hand, manufacturing and assembling processes are very expensive in Europe and Sans Digital has an advantage over potential competitors in there.

### **6.3.3 Threat of Substitute Products**

Repeating the sub-chapter from the analysis of Moscow and Saint Petersburg, *there is a very high threat that the cloud technology will replace traditional data storage out of the market. A new study conducted in December 2013 by David Linthicum shows that the more public cloud services are sold, the more traditional hardware and software shrink. According to Investor's Business Daily (2013) the impact from the cloud technology should prevent IT spending from growing already by 2014 and 2015.*



This trend is crucial and extremely important, as it was repeatedly mentioned in this report – the Finnish technology market is very fast to develop. Cloud technologies have already been introduced to the market and some industries are using it already, but the technologies are not that developed yet. There are several issues with security of the cloud technologies as well as there are several software issues. But according to the pace of its development those issues will be fixed in near future. Thereby, it would be favourable to develop cloud services for Sans Digital as soon as possible; otherwise it will not have a long presence on the Finnish market.

#### **6.3.4 Customer Power**

While doing the analysis it appeared that many of the companies, which are already on the market, have authorised resellers and retailers in Finland as well as distributors and online stores where the products can be purchased. However, it seems like the Finnish companies are picky as they prefer to spend more money for the business solutions and purchase the equipment from big companies such as IBM (for instance, Tieto, Descom and Digia have partnerships with IBM). Moreover, there are several smaller companies, which are struggling to gain market share by providing cheaper products and customer loyalty programmes. Therefore, it is possible to state that in Finland customers do have a strong bargaining power over the companies.

#### **6.3.5 Supplier Power**

As it was mentioned previously, the customers have a strong bargaining power over the smaller companies, yet the big suppliers have strong bargaining power as well, as it might cost a lot to the companies switching the suppliers. Nevertheless, there are a lot of suppliers on the Finnish market and some of them do not have established relations with customers and it puts those companies in danger. So, it would be wise to admit that suppliers have a moderate bargaining power over consumers.

## **6.4 Cost Structure**

In chapter 5.4 the analysis of the main costs of Sans Digital in Moscow and Saint Petersburg were mentioned. Though, there should be different ways of cutting the costs in Finnish market.

In general, all the costs of doing business in Europe are higher than in Asia or Russia, starting with manufacturing through the marketing mix. As the overall economic environment is well-developed, all the costs are going to be higher, for example if Sans Digital decides to have a local representative in Finland, the salaries and wages will be much higher than in Moscow or Saint Petersburg or even in Taipei.

In addition, taxes are very important as certain goods may be subject to additional duties, for example some Chinese goods have an additional anti dumping duty of 48.5%, which is a lot. The fixed VAT (Value Added Tax) rate for Sans Digital will be 24% and it is calculated on the value of the goods, plus the international shipping costs and insurance, plus any import duty due (BundleTech 2014).

Nevertheless, the shipping and distribution cost are going to be high, the marketing campaign will cost a lot as well. The environment in Finland is very competitive and it takes a lot of effort and investment to gain a share in the market. The good thing is that the market environment is transparent and there is a possibility to calculate an approximate budget for marketing and distribution activities.

## **6.5 Distribution Systems**

As for distribution ways to Finland, there seems to be just one way as both Taiwan and United States of America are far away from Finland. This fact means that if Sans Digital will expand its activities into Finnish market all the goods are going to be delivered by air. Finland has a pretty well-developed system for air distribution as the country has 21 airports all over the country (Finavia 2014).

## **6.6 Market Trend and Development**

Once again the chapter of this report is overlapping with chapter 5.6 and as it has previously been mentioned in the study several times, there is a fast developing market trend for cloud technologies. More information on the trend can be found in chapter "Threat of Substitute Products" firstly in the analysis of markets of Moscow and St. Petersburg, then in the chapter 5.6 "Market Trend and Development" of the same analysis and finally, from the previous chapter of analysis of Finnish market.

Another market trend for HDD and SSD technologies can also be found in the chapter "Market Trend and Development", an analysis of Moscow and Saint Petersburg. It is important to notice once more, that the trends are going to be adopted much faster in Finland than in Moscow or St. Petersburg as the country has favourable environment and promotes innovations.

## **6.7 Key Success Factors**

Finnish market is very high developed and its small size makes the market extremely competitive. Therefore, it is important to start with strategic necessities as they provide basis for competing successfully. For Sans Digital those are high quality of products, competitive prices, wide choice of provided products and whole storage solutions for the client companies.

As for strategic strengths, Sans Digital is really involved into its customers businesses and therefore, the company establishes strong relationships with its clients. Moreover, Sans Digital has technical support; service backup and products return policy. Nevertheless, innovation is a really important aspect for Finnish market and the company has to work on that.

## **6.8 PESTLE**

### **Political Factors**

Finland is a parliamentary democracy with a multiparty political system and a President as the head of state. The new Constitution was adopted in 2000 and further adjusted in 2012, the new edition of 2012 moved the political system in a

more parliamentary direction by increasing the amount of power for Parliament and the Prime Minister as well as it reduced the President's power (Ministry for Foreign Affairs of Finland 2014).

The presidential elections are taking place every 6 years and the last time it was held in 2012, thus next election will take place in 2018 and until then the President of Finland is Sauli Niinistö. The Parliament has 200 members, who are elected every 4 years. The last elections were held in 2011, so the next will take place in 2015 (Ministry for Foreign Affairs of Finland 2014). Thereby, the current conditions of the political environment do not seem to change at least until 2015.

Several years in a row Finland is ranked one of the world's most politically and socially stable country. Finland's consensual political culture is continuously characterised by pragmatism and broad agreement between parties (AIG Europe 2013). So, for political environment Finland is the perfect country to expand business to.

### **Economic Factors**

Even though, the statistical numbers of Finnish economy are not always big, the country has one of the highest per capita output in Western Europe. For 2013 GDP of Finland reached 195.5 billion US dollars and this number puts Finland to 58th place along all the countries in the world, the number is relatively small comparing to Russian, however, GDP per capita was 35900 US dollars which almost twice bigger than the Russian GDP per capita rate. The GDP composition by sector of origin was 25.1% in industry sector. The percentage is smaller than in Russian Federation, but industries range is smaller and IT hardware takes a bigger share in this case (Central Intelligence Agency 2013).

The situation with export and import in Finland is completely opposite of the Russian situation, meaning that Finland mostly imports the natural resources such as petroleum, iron and steel, as well as some foodstuff, chemicals and so on. The country is exporting mostly electrical and optical equipment, machinery, transport equipment, etc. As for the numbers, export reached 75.7 billion US dollars and import was 70.67 billion US dollars in 2013. Russia is number one

Finnish importer as Finland imports a lot of petroleum products from there, as well as it exports a lot of equipment to Russia which makes Russia the second biggest export partner, the first one is Sweden. (Central Intelligence Agency 2013.)

As it was mentioned previously, Finland shows great results in developing the economy at really fast rates, the country had been one of the best performing economies within the EU in recent years as well as the global economic crisis did not affect the country's bank and financial sector in 2008-2009. Though, the world's slowdown during those years had an affect on Finnish exports and domestic demands as well as the following recession in EU dampened the economy in 2012-2013. Also, as the Bank of Finland (Suomen Pankki) declared that the economy of Finland still could not reach the before-crisis level and according to the estimation it will not reach the previous level by 2015. Therefore, there are some problems in economy even though the overall picture is very good. According to CIA statistics, one of the most dangerous threats for economy growth in Finland is decreasing productivity that threatens competitiveness. (Central Intelligence Agency 2013.)

According to Bank of Finland the unemployment rate will stay the same as in 2013 this year and it is slightly more than 8%, however, it is predicted that the rate will be reduced by 2015 (Liikanen 2013, pp.10-11).

In general, Finland has a pretty healthy economy even though it does not grow that fast, it can be easily explained by the fact that the country is already developed. It is quite good time to enter the market at the moment for Sans Digital.

### **Social Factors**

The Finnish population is 5 268 799 people, which is quite small, but considering the size of the country it makes about 15 persons per square kilometre. The median age for Finns is 43.2 years, which is still quite young comparing to the rest of EU, but it has a tendency to grow over the years. (Central Intelligence Agency 2013.)

Finnish education topped the PISA (Programme for International Student Assessment) in 2000, 2003 and 2006, as well it was at a very high level during the rest of the years, but in 2013 it was ranked only 12<sup>th</sup> (Taylor 2013), the ranking is still quite good though and according to Bank of Finland (2013) government still spends a big share of its budget on education. There are 14 universities and 24 polytechnic institutions (University of Applied Sciences/UAS) operating under the Ministry of Education and Culture (26, if the Åland Polytechnic in the self-governing province of the Åland Islands, and the Police Academy are included) (Ministry of Education and Culture 2014). Comparing to the amount of young people – 639 761 of 15-24 years old people the number of institutions is quite big (Central Intelligence Agency 2013). Therefore it is possible to draw a conclusion that Finland is a very educated country.

For the social factors, once again the cultural differences appear, as well as the way of doing business in Finland varies from the Taiwanese way. It was mentioned that people of Moscow and Saint Petersburg prefer to talk strictly about the deal during business meeting and the same goes for Finnish people. So, it is highly recommended to study the culture thoroughly and respect the people from different society. As well as it is preferable to have a local representative for doing business in Finland.

### **Technological Factors**

In the 90s, knowledge drove economic growth and transformation and in less than a decade Finland became an ICT specialised economy. Since then Finland has systematically focused on promoting innovation through various channels such as national innovation strategy, technology programmes and a network of regional science and technology parks e.x. Technopolis. It is among leading countries in the world in terms of R&D (Research and Development) spending per capita as well as in social innovations (Ministry for Foreign Affairs of Finland 2014).

According to High Technology Finland research, Finland has proven an ideal environment for developing and testing new type of communication and information technology products. In addition, Finland is not only investing in innova-

tion and technology but as well using those efficiently, the achievement of technology are applied in medical, industrial, environmental, energy and engineering sector heavily (Herring 2014).

Without controversy, Finland is a perfect market for such a company as Sans Digital, however, it is clear that as the technological sector is well-developed there is going to be tough competition among IT companies in Finland and Sans Digital has to be prepared to compete with those.

### **Legal Factors**

The Finnish legal system is a civil law system; all the laws are enacted in Finnish and Swedish, the two official languages of the Republic. A significant part of Finland's binding legal norms can also be found in EU law and in Finland's international obligations. The country has a dualist system, which requires legislation to adopt international norms into domestic law. (The American Chamber of Commerce in Finland 2011, pp. 2-3.)

According to AIG Finland (2013), the country has a fair legal system, which is well developed. Finnish law generally provides for adequate protection of property rights and as a member of the EU, Finland adheres to a series of multilateral conventions covering industrial, intellectual and commercial property.

Corruption is not a significant problem in Finland, which constantly ranks among the top performers in Transparency International's Corruption Perceptions Index. Secured interests in property are recognised and enforced (Index of Economic Freedom 2014).

To sum up, the Finnish legal environment is very preferable for any kind of businesses as well as the legal system is very well structured and easy to understand, which makes it perfect for foreign companies.

### **Environmental Factors**

As it was mentioned in Technological Factors sub-chapter, Finland is investing a lot into technology and one of the highest priorities is the protection of the environment with the help of technology.

One of the unusual facts is that Finland has managed to break the traditional linkage between GDP growth and high pollution rate and to increase the amount of municipal waste produced. Moreover, Sitra – the Finnish Innovation Fund – recently launched an environmental programme known as Cleantech Finland to further enhance Finland’s competitiveness in the environmental technology area. The country has a lot of knowledge and it can actually help the rest of the world to meet environmental challenges. (Noponen 2014.)

Moreover, it is crucial to consider the EU Directive on Waste Electrical and Electronic Equipment (WEEE) when doing business in Finland. The Directive requires *separate collection of WEEE and its subsequent recovery and treatment in an environmentally sound manner, which helps achieve not only reduction of environmental impacts, but also better resource efficiency. In order to address these issues, the WEEE Directive introduced producer responsibility for WEEE and set a target for collection of WEEE as well as targets for recovery and for reuse and recycling* (Directive 2012/19/EU of the European Parliament and of the Council on waste electrical and electronic equipment 2012). Therefore, it is compulsory to develop the recycling policy in order to collect all the used equipment before entering the Finnish market.

All in all, Finland is an environmentally friendly country. It starts with people sorting out the garbage through all the big companies and government spending a lot of money for improving the environment and saving the nature. It is almost impossible to compare the Finnish environment to St. Petersburg’s, despite the fact that there is only 200 kilometres between St. Petersburg and the closest Finnish city.

## **6.9 SWOT**

In this chapter the factors that can help to develop a favourable strategy will be discussed. All the threats and opportunities of the environment as well as the internal strengths and weaknesses are presented in the Table 4:



	Helpful	Harmful
<b>Internal</b>	<b>Strengths:</b> <ul style="list-style-type: none"> <li>• Long time on the market → experienced company</li> <li>• Low prices</li> <li>• Good quality of the products</li> <li>• Strong customer service</li> </ul>	<b>Weaknesses:</b> <ul style="list-style-type: none"> <li>• Low brand awareness</li> <li>• Lack of marketing activities</li> <li>• Slow development of new products and offerings</li> </ul>
<b>External</b>	<b>Opportunities:</b> <ul style="list-style-type: none"> <li>• Favourable political, economical and legal factors</li> <li>• Openness of market</li> <li>• Safe and transparent environment</li> </ul>	<b>Threats:</b> <ul style="list-style-type: none"> <li>• Cultural gap</li> <li>• Fast-growing technological market → difficult to keep up</li> <li>• Developed market</li> </ul>

Table 4: SWOT Analysis of Finland for Sans Digital

The strengths are remaining the same as in chapter SWOT for St. Petersburg and Moscow; however, the external aspects of market are totally different for Finland. As for the developed market, which has a lot of new technologies introduced, it might be difficult to survive in the market with current offer, especially now when cloud technologies are widely used. But, in conclusion, Finnish market is favourable to enter at the moment.

## 7 Summary

The purpose of the study was to carry out a proper market analysis of the Finnish market and the markets of Moscow and Saint Petersburg. Furthermore, the aim was to identify if it is feasible to enter the markets at the moment or in near future as well as to discover if there are possibilities for future development.

The analysis has been divided into two parts: theoretical and empirical. First of all, in the theoretical part all of the concepts were described and all the tools, which have been used in the analysis. As for the empirical part, the desk research technique was used, all the information was gathered from already existing data. After that, the collected information was carefully analysed and relevant data has been introduced in the report.

## **7.1 Comparison of the markets**

Due to the sizes of the markets analysed in the study, it is quite difficult to compare them, but necessary to make the right decision.

Basically, from the analysis it is clear that the IT hardware sector in Moscow and Saint Petersburg takes a bigger part, compared to Finland, where the hardware sector is rather small. Furthermore, in Russia the market has a bigger tendency of growing compared to Finland and therefore there are more possibilities in the markets of Moscow and Saint Petersburg.

Though, from the PESTLE analysis Finland is a much better market to enter, as it is safe, stable and transparent. More than that, because of the uncertain political and economic environment in Russia at the moment, it is not a good time to enter the market. However, it is possible to note from the analysis that markets of Saint Petersburg and Moscow bring a lot of potential, as it will be possible to expand the operations to the whole Russia in the future.

During Porter Five Forces analysis it appeared that compared to the markets of Moscow and Saint Petersburg, the Finnish market is very competitive and customers have a strong bargaining power. So, one way to survive is to offer lower prices or more benefits to the clients, but at the same time a lot of money should be invested into marketing, distribution and innovation, which makes it complicated to cut the costs of doing business. Thus, it is possible to say that the markets of St. Petersburg and Moscow will be more profitable for Sans Digital.

In addition, while analysing the markets, it came that the Finnish market is technologically savvy and fast to develop, therefore it is quite crucial to offer new

services to keep up and as Sans Digital is not an enterprise and limited in resources, thus it can be tough.

As for the SWOT analysis, for the internal part Sans Digital has a lot of strengths in both markets, but as well there are a lot of weaknesses, the company has to deal with. For the external part of the SWOT analysis, Finland has a more favourable environment and fewer threats compared to Moscow and St. Petersburg.

To sum up, both markets have their pros and cons. By developing a strong market entry strategy, Sans Digital can be successful in both of the countries as it has a strong base already in manufacturing and customer service. However, from the analysis it is clear that the company will have better chances in St. Petersburg and Moscow, as it is easier to gain a market share there, probably not at the current moment as it is better to wait and see how the political tensions will be solved. Sans Digital should consider the Finnish market for the future expansion as well, a lot of work should be done before that though.

## **7.2 Recommendations for further development**

First of all, as it was already mentioned, there is cultural factor for both Finland and Moscow and Saint Petersburg markets, therefore the culture and the way of doing business should be studied first and only then all the activities towards the expansion should be developed. As well as all the weaknesses from the SWOT analysis should be worked on.

Definitely, there are several ways to gain the competitive advantage by taking several steps in creating the proper marketing strategy by differentiation of the product offering. The company should invest in marketing its strong sides like good quality of products, good backup services and strong relationships with existing customers.

Also, it is important to invest in innovation, as there is a threat of a substitute product, which is cloud technology. If Sans Digital will offer cloud services as well, the company will gain more customers and there will be no danger that the company will be replaced out of market in the near future.

### **7.3 Conclusion**

In conclusion, it is possible to state that all the goals, which were set in the beginning, were successfully reached in time. The analysis presented in this thesis should be used as background of the future marketing research, as there are a lot of aspects to still consider. The next step for Sans Digital should be evaluating all the pros and cons of entering the new market and then developing the entry mode strategy. In case of postponing the entrance for a couple of years, the new analysis should be carried out as both markets have a tendency to develop quite fast.

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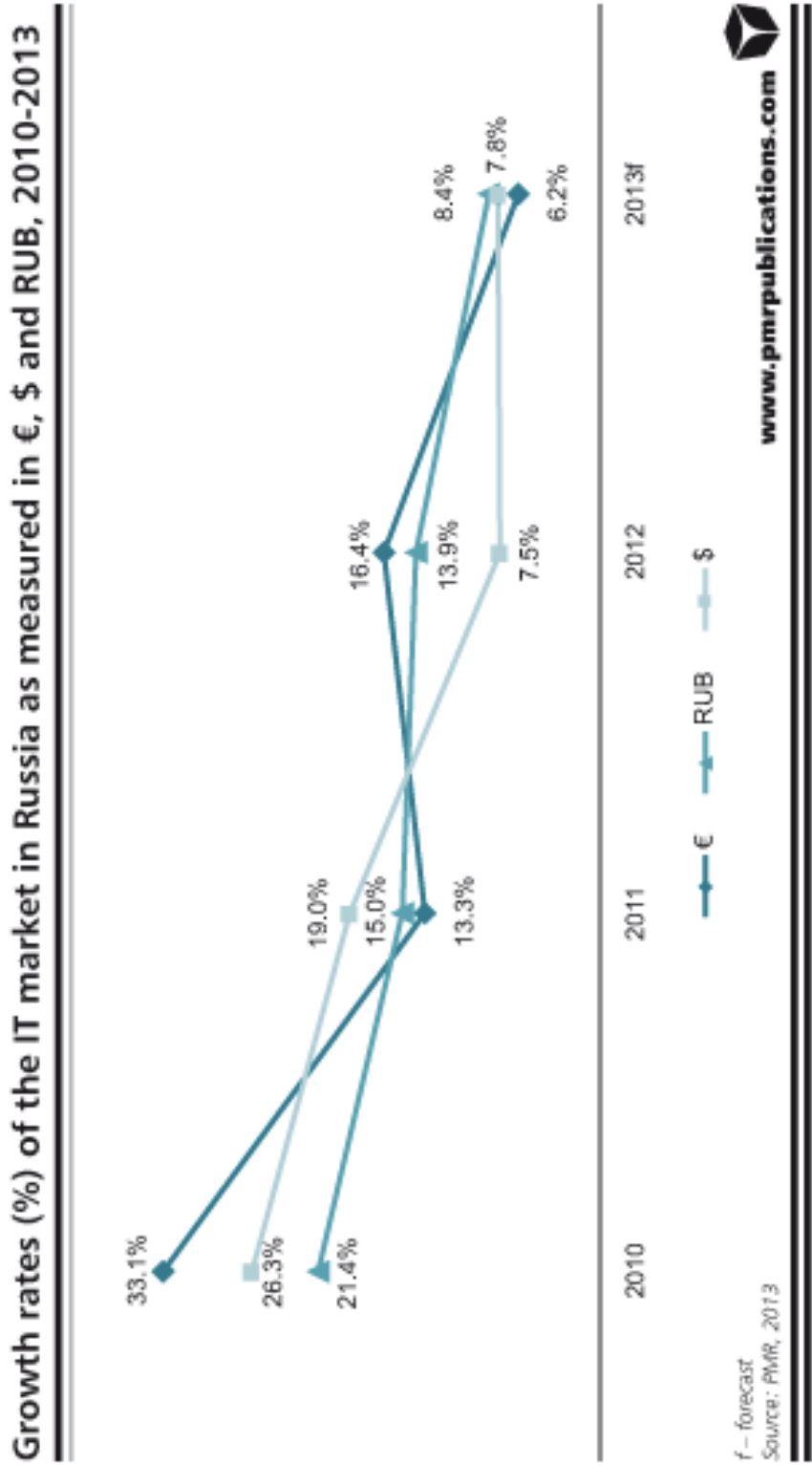


Figure 1: Growth rates (%) of the IT market in Russia as measured in €, \$ and RUB, 2010-2013 (PMR Publications 2013).

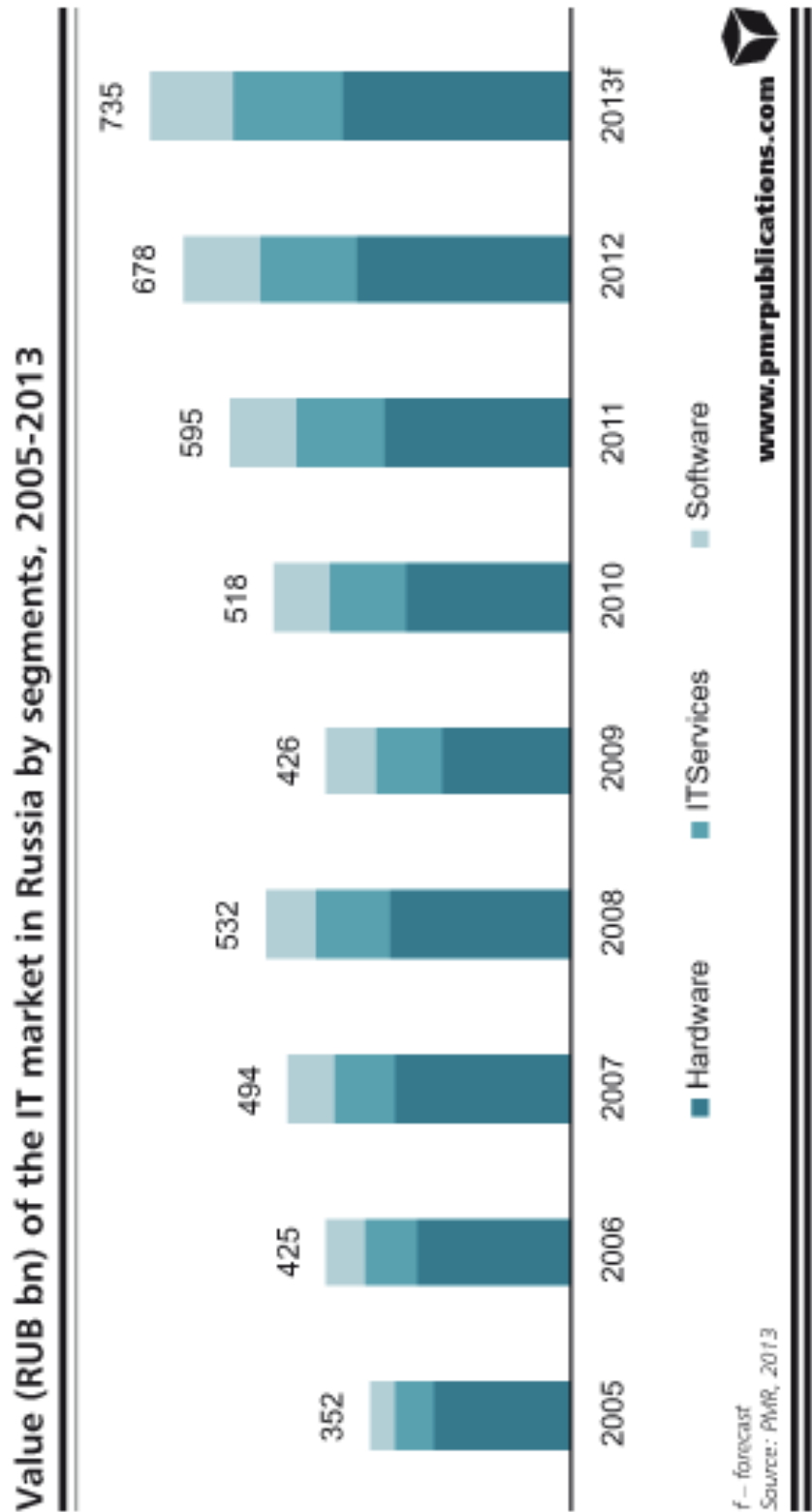


Figure 2: Value of the IT market in Russia by segments, 2005-2013 (PMR Publications 2013).